



Office of the Washington State Auditor
Pat McCarthy

**Financial Statements and Federal Single Audit
Report**
City of Yakima

For the period January 1, 2017 through December 31, 2017

Published September 20, 2018

Report No. 1022221





Office of the Washington State Auditor

Pat McCarthy

September 20, 2018

Council
City of Yakima
Yakima, Washington

Report on Financial Statements and Federal Single Audit

Please find attached our report on the City of Yakima'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,

A handwritten signature in cursive script that reads "Pat McCarthy".

Pat McCarthy
State Auditor
Olympia, WA

TABLE OF CONTENTS

Schedule of Findings and Questioned Costs.....	4
Summary Schedule of Prior Audit Findings.....	6
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.....	7
Independent Auditor’s Report on Compliance for Each Major Federal Program and Report on Internal Control over Compliance in Accordance with The Uniform Guidance.....	10
Independent Auditor’s Report on Financial Statements	13
Financial Section.....	16
About the State Auditor’s Office	107

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

City of Yakima January 1, 2017 through December 31, 2017

SECTION I – SUMMARY OF AUDITOR’S RESULTS

The results of our audit of the City of Yakima 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>
14.239	Home Investment Partnerships Program
20.507	Federal Transit Cluster – Federal Transit Formula Grants

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by 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.



DEPARTMENT OF FINANCE & BUDGET
 129 North Second Street
 Yakima, Washington 98901
 (509) 575-6070

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

City of Yakima

January 1, 2017 through December 31, 2017

This schedule presents the status of federal findings reported in prior audit periods.

Audit Period: January 1, 2016 – December 31, 2016	Report Ref. No.: 1019930	Finding Ref. No.: 2016-001
Finding Caption: The City’s internal controls were not adequate to ensure all major funds were accurately reported on the financial statements.		
Background: The City prepares its financial statements using generally accepted accounting principles (GAAP), which required government-wide and fund level financial statements. The governmental and proprietary fund financial statements provide financial information for each major fund in a separate column. Major funds represent the government’s most important funds and are determined by a mathematical calculation. This calculation only applies to governmental and enterprise fund activity. It should not include activity for the internal service or fiduciary funds. The City prepared a calculation to determine its major funds; however, the activity for the internal service funds was inappropriately included.		
Status of Corrective Action: (check one) <input checked="" type="checkbox"/> Fully Corrected <input type="checkbox"/> Partially Corrected <input type="checkbox"/> Not Corrected <input type="checkbox"/> Finding is considered no longer valid		
Corrective Action Taken: <i>The process for determining major funds was reviewed and appropriately calculated for the subsequent year.</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 Yakima
January 1, 2017 through December 31, 2017**

Council
City of Yakima
Yakima, 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 Yakima, as of and for the year ended December 31, 2017, 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 14, 2018.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

In addition, we noted certain matters that we have reported to the management of the City in a separate letter dated September 14, 2018.

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 "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy

State Auditor

Olympia, WA

September 14, 2018

**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 Yakima
January 1, 2017 through December 31, 2017**

Council
City of Yakima
Yakima, Washington

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

We have audited the compliance of the City of Yakima, 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, 2017. 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, 2017.

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 "Pat McCarthy". The signature is written in a cursive style with a large initial "P" and "M".

Pat McCarthy

State Auditor

Olympia, WA

September 14, 2018

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

City of Yakima January 1, 2017 through December 31, 2017

Council
City of Yakima
Yakima, 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 Yakima, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed on page 16.

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 Yakima, as of December 31, 2017, and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparison for the General fund and Neighborhood Development fund, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information listed on page 16 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 14, 2018 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.



Pat McCarthy

State Auditor

Olympia, WA

September 14, 2018

FINANCIAL SECTION

City of Yakima January 1, 2017 through December 31, 2017

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2017

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2017

Statement of Activities – 2017

Balance Sheet – Governmental Funds – 2017

Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position – 2017

Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds – 2017

Reconciliation of Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities – 2017

Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund – 2017

Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – Neighborhood Development Fund – 2017

Statement of Net Position – Proprietary Funds – 2017

Statement of Revenues, Expenses and Changes in Fund Net Position – Proprietary Funds – 2017

Statement of Cash Flows – Proprietary Funds – 2017

Statement of Net Position – Fiduciary Funds – 2017

Notes to the Financial Statements – 2017

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Proportionate Share of Net Pension Liability – PERS 1, PERS 2/3, PSERS, LEOFF 1, and LEOFF 2 – 2017

Schedule of Employer Contributions – PERS 1, PERS 2/3, PSERS and LEOFF 2 – 2017

Schedule of Funding Progress – 2017

Schedule of Changes in the Net Pension Liability and Related Ratios – Fire Pension and Police Pensions – 2017

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Expenditures of Federal Awards – 2017

Notes to the Schedule of Expenditures of Federal Awards – 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Yakima's discussion and analysis offers readers of the City's financial statements a narrative overview and analysis of the City's financial activities for the fiscal year ended December 31, 2017. Readers are encouraged to consider the information presented here in conjunction with additional information that has been furnished in the letter of transmittal and in the financial statements and notes to the financial statements (which immediately follow this discussion).

FINANCIAL HIGHLIGHTS

- The total assets and deferred outflows of the City of Yakima exceeded its liabilities and deferred inflows at December 31, 2017, by \$314.3 million. Net position invested in capital (net of depreciation and related debt) account for 91.4% of this amount, with a value of \$287.2 million.
- The City's total net position increased by \$2.8 million to \$314.3 million from \$311.5 million due primarily to grant funded capital improvements in the City's proprietary funds. General revenues increased by \$1.4 million and charges for services increased by \$0.8 million. (Note: Due to the implementation of GASB 73, which required a prior period restatement of 2016 net position to account for the pension liability of the Fire and Police pensions, the 2016 ending net position was reduced by \$7.3 million from \$318.8 million to \$311.5 million.)
- The fund balance of the General Fund was \$8.8 million dollars at the end of 2017, which represents 14.2% of total General Fund expenditures. While the fund balance of the General Fund remains less than target of 16.7%, it has been growing. The current 5-Year Plan outlines management's commitment to rebuild fund balance to policy level over the next few years.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City of Yakima's basic financial statements. The basic financial statements are comprised of three components: 1) Government-wide financial statements, 2) Fund financial statements, and 3) Notes to the financial statements.

Government-Wide Financial Statements

There are two government-wide financial statements, the statement of net position and the statement of activities, which are designed to provide readers with a broad overview of the City of Yakima's finances in a manner similar to a private sector business. Both of the government-wide financial statements distinguish functions of the City of Yakima that are principally supported by taxes and intergovernmental revenues (referred to as "governmental activities") from functions that are intended to recover all or a significant portion of their costs through user fees and charges (referred to as "business-type activities"). The governmental activities of the City of Yakima include a full range of local governmental services provided to the public, such as public safety (police, municipal court, fire, and building codes); public improvements (streets, traffic signals); parks and recreation; community development; and general administrative services. The business-type activities of the City of Yakima include sanitation (solid waste disposal, wastewater treatment, and stormwater management); potable and irrigation water systems; transit; and airport.

The Statement of Net Position presents information on all of the City of Yakima's assets and deferred outflows, liabilities and deferred inflows, with the difference between the two groupings reported as net position. This statement serves a purpose similar to that of the balance sheet of a private sector business. Over time, increases or decreases in net position may serve as a useful indicator of changes in the City's financial position. However, this is just one indicator of financial health of the City. Other indicators include the condition of the City's infrastructure systems (roads, drainage systems, bridges, etc.), changes in property tax base, and general economic conditions within the City.

The Statement of Activities (Changes in Net Position) presents information showing how the government's net position changed during the year. Because it separates program revenue (revenue generated by specific programs through charges for services, grants, and contributions) from general revenue (revenue provided by taxes and other sources not tied to a particular program), it shows to what extent each program has to rely on taxes for funding. All changes in net position are reported using the accrual basis of accounting which requires that revenue be reported when earned and expenses be reported when the goods and services are received, regardless of the timing of the cash flow. Items such as uncollected taxes, unpaid vendor invoices for items received in 2017, and earned but unused vacation leave will be included in the statement of activities as revenue and expense, even though the cash associated with these items may not be received or distributed in 2017.

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 Yakima, 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 Yakima can be divided into three categories: Governmental Funds, Proprietary Funds, and Fiduciary Funds. Governmental Funds are used to account for most, if not all, of a government's tax supported activities. Proprietary Funds are used to account for a government's business-type activities, where all or part of the costs of activities are supported by fees and charges that are paid directly by those who benefit from the activities. Fiduciary Funds are used to account for resources that are held by the government as a trustee or agent for parties outside of the government. The resources of fiduciary funds cannot be used to support the government's own programs.

Governmental Funds

The Governmental Fund Balance Sheet and the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances present a separate column of financial data for the General Fund and the Neighborhood Development Fund, which are considered to be major funds, based on criteria established by GASB Statement #34. Data from the remaining governmental funds are combined into a single, aggregated presentation. The governmental fund financial statements can be found immediately following the government-wide financial statements. Individual fund data for each of the nonmajor governmental funds is provided in the form of combining statements, outside of the basic financial statements.

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

Because the focus of governmental fund financial statements is narrower than that of government-wide financial statements, it is useful to compare information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the Governmental Fund Balance Sheet and the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances provide reconciliation to the governmental activities column in the government-wide statements, in order to facilitate this comparison.

The City maintains budgetary controls over its operating funds. The objective of budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget. Budgets for governmental funds are established in accordance with state law and are adopted on a fund level. Capital outlays are approved on an item by item basis or project basis. A budgetary comparison statement is provided for the General Fund and all special revenue funds to demonstrate compliance with the budget.

Proprietary Funds

There are two types of proprietary funds: Enterprise and Internal Service. Enterprise Funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its Solid Waste (Refuse); Wastewater; Domestic Water; Irrigation; Stormwater; Transit; and Airport functions. Internal Service Funds (the second type of proprietary funds) accumulate and allocate costs internally among the City's various functions. The revenues and expenses of the internal service funds that are duplicated in other funds through allocations are eliminated in the government-wide statements, with the remaining balances included in the governmental activities column.

Proprietary fund statements follow the governmental fund statements in this report. They provide the same type of information as the government-wide financial statements, only in more detail, since both apply the accrual basis of accounting. In comparing the Proprietary Fund Statement of Net Position to the business-type column on the Government-Wide Statement of Net Position, you will notice that the total net position agree and, therefore, need no reconciliation. In comparing the total assets and total liabilities between the two statements, you will notice slightly different amounts. This is because the "internal balances" line on the government-wide statement combines the "due from other funds" (asset) and the "due to other funds" (liabilities) from the proprietary fund statement in a single line in the asset section of the government-wide statement.

Individual fund data for each of the nonmajor funds is provided in the form of combining statements. The proprietary fund combining statements follow the governmental fund combining statements in this report.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. These funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City of Yakima's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The City of Yakima has one fiduciary fund - an agency fund. The basic fiduciary fund financial statements can be found following the proprietary fund financial statements, in the Basic Financial Statements section.

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. The notes to the financial statements can be found immediately following the basic financial statements in this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Statement of Net Position

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The City of Yakima's net position totaled \$314.3 million at December 31, 2017. The following table reflects the condensed Government-Wide Statement of Net Position with comparative totals for 2016.

NET POSITION (Restated for GASB 73)

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Assets						
Current and other assets	\$ 60,463,481	\$ 54,084,387	\$ 51,133,222	\$ 47,174,087	\$ 111,596,703	\$ 101,258,474
Net capital assets	192,089,737	197,597,447	168,167,790	170,580,982	360,257,527	368,178,429
Total assets	252,553,218	251,681,834	219,301,012	217,755,069	471,854,230	469,436,903
Deferred outflows	3,111,008	6,154,711	1,395,955	2,051,487	4,506,963	8,206,198
Total assets & deferred outflows	255,664,226	257,836,545	220,696,967	219,806,556	476,361,193	477,643,101
Liabilities						
Payables & other liabilities	19,008,044	19,485,787	6,903,795	6,607,878	25,911,839	26,093,665
Long-term liabilities	89,437,456	94,101,373	40,001,063	45,292,375	129,438,519	139,393,748
Total liabilities	108,445,500	113,587,160	46,904,858	51,900,253	155,350,358	165,487,413
Deferred inflows	5,418,119	397,811	1,265,277	215,337	6,683,396	613,148
Total liabilities & deferred inflows	113,863,619	113,984,971	48,170,135	52,115,590	162,033,754	166,100,561
Net position						
Net investment in capital assets	151,106,237	154,344,918	136,111,813	135,654,638	287,218,050	289,999,556
Restricted	25,019,672	17,490,879	1,835,000	1,835,000	26,854,672	19,325,879
Unrestricted	(34,325,302)	(27,984,223)	34,580,018	30,201,327	254,716	2,217,104
Total net position	\$ 141,800,607	\$ 143,851,574	\$ 172,526,831	\$ 167,690,965	\$ 314,327,438	\$ 311,542,539

The City of Yakima's total assets stand at \$471.9 million as of December 31, 2017. Of this amount, \$360.3 million is accounted for by capital assets, which includes some infrastructure and construction in progress. Out of \$192.1 million in capital assets reported in Governmental activities at December 31, 2017, \$104.8 million (54.6%) is accounted for by infrastructure acquisitions (including the right-of-way land associated with these projects and land under the road).

Of the remaining City assets, approximately \$74.4 million was accounted for in cash, cash equivalents, restricted cash and investments, \$21.8 million in various receivables, \$14.2 million in net pension assets and \$1.2 million inventories and prepayments.

At December 31, 2017, the City had outstanding liabilities of \$155.4 million, of which \$129.4 million is considered long-term and is due over an extended period of time. There is a deficit in unrestricted net position in the governmental funds because the City has long-term commitments that are greater than currently available resources, primarily long-term citywide pension benefits and other post-employment benefit liabilities. Refer to the notes to the financial statements for a more in depth discussion of pension and other long-term liabilities.

Current liabilities for the entire City in both governmental and business-type activities total \$25.9 million, and include \$5.2 million in accounts & contracts payable, \$1.7 million in claims and judgments payable, \$7.6 million in accrued salaries and benefits, \$3.7 million in compensated absences accrued and other various liabilities. Also included are debt payments due within the next calendar year totaling \$7.8 million.

The largest portion of the City's net position (91.4%) reflects its investment in capital, less any outstanding related debt used to acquire those assets. The City's capital assets, which are used to provide services to citizens, are investments in capital and are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Approximately 8.6% of the City's net position is subject to external restrictions on how they may be used (restricted by the Revised Code of the State of Washington or by contractual agreements with parties outside of the primary government).

At December 31, 2017, the City of Yakima reports a net position of \$314.3 million, of which \$141.8 million represents governmental activities and \$172.5 million represents business-type activities. Note that the 2016 unrestricted net position was reduced by a prior period adjustment of \$7.3 million due to the implementation of GASB 73.

CHANGES IN NET POSITION
(Restated for GASB 73)

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Revenues						
Program revenues						
Charges for services	\$ 14,889,953	\$ 15,047,597	\$ 46,682,236	\$ 45,683,892	\$ 61,572,189	\$ 60,731,489
Operating grants & contributions	6,981,703	8,132,493	2,601,883	2,817,102	9,583,586	10,949,595
Capital grants & contributions	2,340,255	2,358,429	4,789,572	12,263,301	7,129,827	14,621,730
General revenues						
Property taxes	18,278,481	18,283,317	—	—	18,278,481	18,283,317
Sales and use taxes	23,146,192	22,808,941	5,886,780	5,854,835	29,032,972	28,663,776
Other taxes and fees	13,452,504	11,988,947	—	—	13,452,504	11,988,947
Other revenues	884,738	1,010,568	39,688	326,123	924,426	1,336,691
Total revenues	79,973,826	79,630,292	60,000,159	66,945,253	139,973,985	146,575,545
Expenditures						
General government	12,577,931	11,991,764	—	—	12,577,931	11,991,764
Public safety	47,245,264	49,780,170	—	—	47,245,264	49,780,170
Utilities	707,982	523,675	—	—	707,982	523,675
Transportation	12,837,330	12,073,876	—	—	12,837,330	12,073,876
Economic environment	7,307,839	6,339,801	—	—	7,307,839	6,339,801
Public health services	626,296	613,618	—	—	626,296	613,618
Cultural and recreational	7,492,432	7,367,586	—	—	7,492,432	7,367,586
Interest on long-term debt	1,492,793	1,540,102	—	—	1,492,793	1,540,102
Transit	—	—	9,489,641	9,186,674	9,489,641	9,186,674
Airport	—	—	2,235,534	2,012,219	2,235,534	2,012,219
Refuse	—	—	4,846,811	4,602,926	4,846,811	4,602,926
Wastewater	—	—	17,326,405	15,144,974	17,326,405	15,144,974
Water	—	—	7,749,353	7,567,029	7,749,353	7,567,029
Irrigation	—	—	2,362,997	2,276,069	2,362,997	2,276,069
Stormwater	—	—	2,890,477	2,052,102	2,890,477	2,052,102
Total Expenditures	90,287,867	90,230,592	46,901,218	42,841,993	137,189,085	133,072,585
Excess (deficiency) before transfers	(10,314,041)	(10,600,300)	13,098,941	24,103,260	2,784,900	13,502,960
Transfers	8,263,074	9,562,554	(8,263,074)	(9,562,554)	—	—
Change in net position	(2,050,967)	(1,037,746)	4,835,867	14,540,706	2,784,900	13,502,960
Net position - beginning	143,851,574	152,150,030	167,690,965	153,150,259	311,542,539	305,300,289
Prior period adjustment - GASB 73	—	(7,260,710)	—	—	—	(7,260,710)
Net position - ending	\$ 141,800,607	\$ 143,851,574	\$ 172,526,832	\$ 167,690,965	\$ 314,327,439	\$ 311,542,539

The Statement of Activities (Changes in Net Position)

The City of Yakima's total net position increased by \$2.8 million over 2016. Net position for governmental activities decreased by \$2.1 million due to a decrease in grant funding for capital projects, while business-type activities increased by \$4.8 million. The majority of the increase in business-type activities comes from grants received to make capital improvements.

Total revenues for the City of Yakima were \$140.0 million in 2017. Governmental activities provided \$80.0 million (57.1%), while business-type activities added \$60.0 million (42.9%).

Expenses for the year totaled \$137.2 million, with governmental activities accounting for \$90.3 million or 65.8% and business-type activities accounting for \$46.9 million or 34.2%. Key elements in changes in net position are shown in the Changes in Net Position table.

Governmental Activities

Within governmental activities, tax revenue accounted for 68.6% of total revenue sources, with grants and contributions accounting for 11.7%. The remaining 19.7% of revenue was provided by charges for services, interest income, and miscellaneous revenues.

Governmental activities decreased net position by \$2.1 million or 1.4%, however, total government revenues increased by \$0.3 million or 0.4%. The significant fluctuations in revenue are as follows:

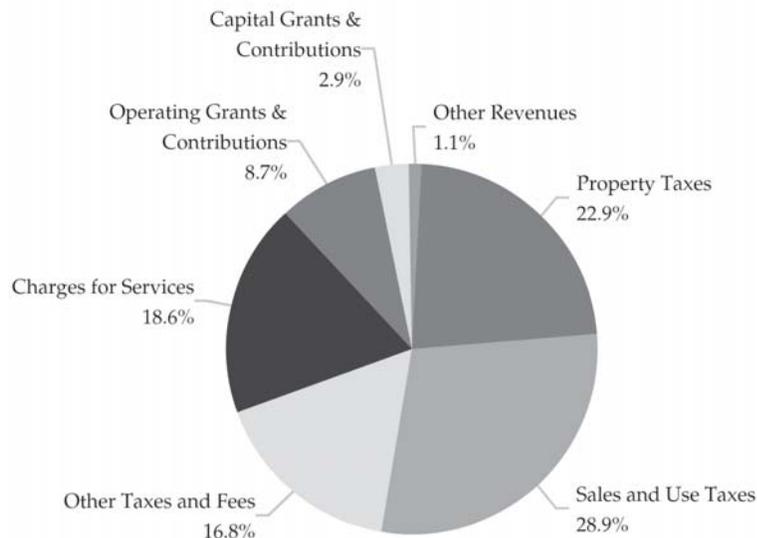
- Grants & Contributions decreased by \$1.2 million, primarily because 2016 included an economic development grant from Yakima County.
- Total taxes increased by \$1.8 million or 3.4% from \$53.1 million to \$54.9 million.
 - Property Taxes decreased \$4,836, due to the timing of collections.
 - Sales Tax increased by \$0.3 million or 1.5% from 2016. This key revenue source was estimated to grow at about 2.2%, and while the beginning of the year started out well, by the end of the year, collections were slower than expected.
 - Other Taxes and Fees increased by \$1.5 million, due to increases in utility tax collections, such as electric, gas, refuse and telephone.
- Transfers from Business-Type Activities consists primarily of in-lieu utility taxes of \$7.0 million. Also included are transfers by enterprise funds to the Vehicle Replacement Reserve. This category decreased \$1.0 million primarily because of variability in contributions to the equipment replacement internal service fund.

The largest program expenses consist of Public Safety (52.3%); General Government (13.9%) and Transportation (14.2%). These programs accounted for 80.5% of total governmental expenses.

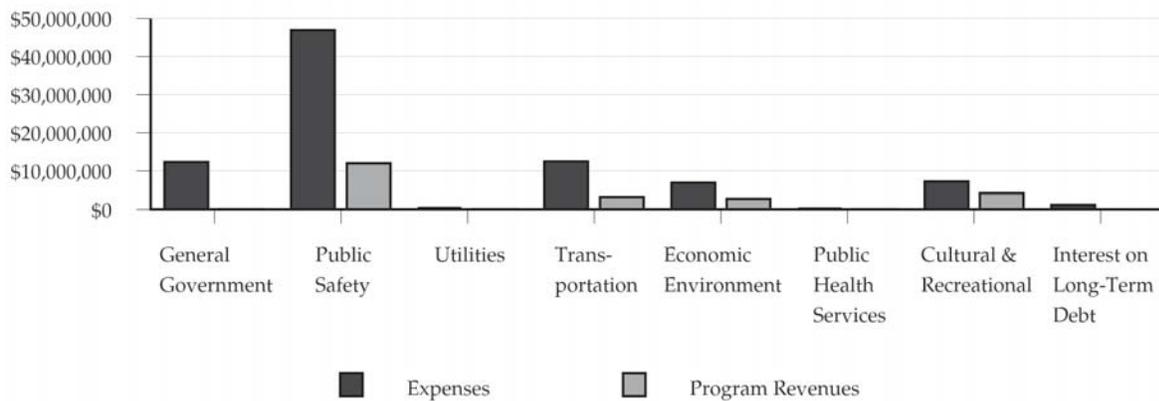
In total, governmental expenses increased \$0.1 million or 0.1%. Normal inflationary pressures are major factors. Bargaining units that have settled, have settled for an average of 2.05%.

Following are graphs which illustrate revenue by source and expenditures by program for governmental funds in 2017.

REVENUES BY SOURCE - GOVERNMENTAL ACTIVITIES



EXPENSES AND PROGRAM REVENUES - GOVERNMENTAL ACTIVITIES



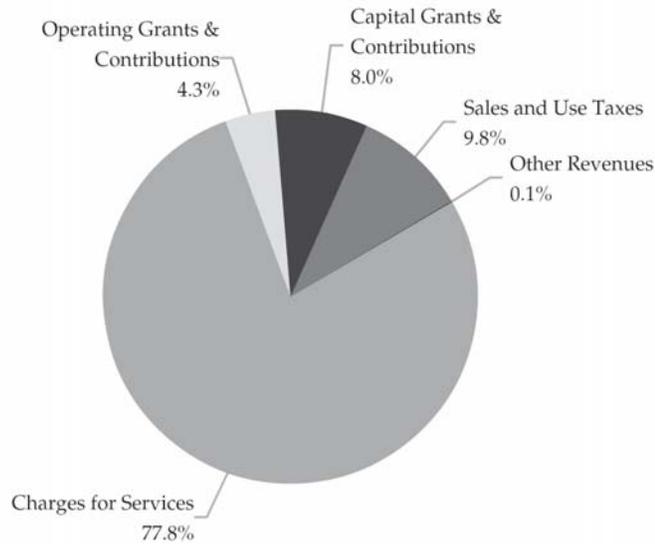
Business-Type Activities

Of the \$60.0 million in business type revenues, 77.8% was provided by charges for services, with the remaining amount provided by grants, contributions, transit sales tax and interest income. Overall, business type revenues demonstrated a decrease of \$6.9 million or 10.4% over 2016. Capital Grants decreased by about \$7.5 million or 60.9%, due primarily to funding for a major project at the Airport that was substantially completed in 2016.

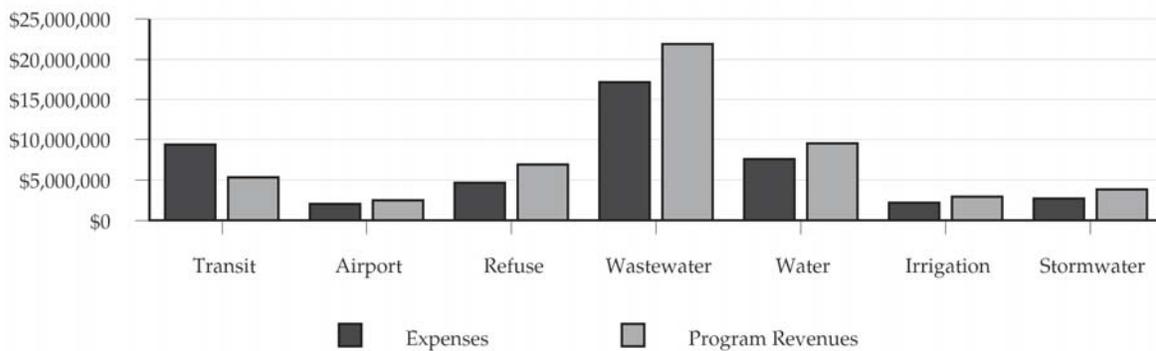
Of the \$46.9 million in business-type expenses, 36.9% are associated with the Wastewater program and 20.2% with Transit, domestic water programs represent about 16.5%, Refuse 10.3%, Irrigation 5.0%, Stormwater 6.2% and Airport 4.8%. Generally, changes in expenses are in line with changes in general operating increases.

The following charts depict the expenses and program revenues, with a breakdown of revenues by source for the business-type activities.

REVENUES BY SOURCE – BUSINESS-TYPE ACTIVITIES



EXPENSES AND PROGRAM REVENUES – BUSINESS TYPE ACTIVITIES



Charges for services represent the majority 77.8% of revenue in these funds. The only fund that does not rely heavily on charges for service is the Transit fund, which is subsidized by a voter approved local option sales tax of 0.3% and a federal operating grant.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As noted earlier, the City of Yakima uses fund accounting to ensure and demonstrate compliance with finance related legal and regulatory requirements. Following is a financial analysis of the City's governmental and proprietary funds.

Governmental Funds Analysis

The General Fund is always considered to be a major fund as defined by GASB Statement #34. The Neighborhood Development Fund, although not a major component of City operations, is also considered to be a major fund by definition of the GASB due to the long term Notes Receivable and respective Deferred Inflow balances. These balances represent both the current and long term portions of housing loans made to low income residents. These loans are partially forgivable in certain circumstances, but since the forgivable amount is entirely dependent upon debtor behavior it cannot be determined. Therefore the full amount remaining due on the loans is reflected in the Balance Sheet - Governmental Funds.

The focus of the City of Yakima's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. In particular, unassigned 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 December 31, 2017, the City's governmental funds reported combined fund balances of \$23.0 million. Of this total amount, \$6.3 million (27.4%) is unassigned and available for spending within these funds. About \$0.7 million is not spendable (cemetery perpetual care), \$9.4 million is restricted (primarily for transportation, capital improvements, and public safety), \$5.4 million is committed primarily for transportation system improvements and \$1.3 million is assigned primarily for public safety.

The General Fund is the chief operating fund of the City of Yakima. At the end of the 2017 fiscal year, the fund balance of the General Fund was \$8.8 million. The fund balance is about 14.2% of total general fund expenditures (which represents about a 1.6 month reserve). Total assets in the General Fund amounted to \$17.2 million, accounting for 42.0% of total governmental fund assets.

The fund balance of the City of Yakima's General Fund increased by \$483,817 during the current fiscal year, due mostly to slightly lower expenditures than predicted.

The General Fund accounts for 71.1% of all governmental fund revenue and 63.8% of all expenditures.

The other major fund, Neighborhood Development, saw its fund balance decline by \$330,890 due to the timing of the receipt of program income, much of which was received in 2016, but could not be used until 2017.

Other funds had only modest changes in fund balance.

Enterprise Funds Analysis

Transit, Wastewater, Domestic (potable) Water, Irrigation and the Yakima Air Terminal are considered major funds in the City's 2017 (GASB 34) Financial Statements while the Refuse and Stormwater funds are nonmajor funds.

As of December 31, 2017, the City's enterprise funds (internal service fund balances are treated entirely as governmental activities) reported combined net position of \$172.5 million, with \$74.5 million or approximately 43.2% being contributed by the Wastewater fund. Additionally, about \$136.1 million (78.9%) of net position is accounted for by investment in capital assets, net of related debt, \$1.8 million is restricted for debt service and \$34.6 million is unrestricted. The Notes to the Financial Statements (Note 12) present segment information that is grouped according to revenue bond requirements for these business type activities.

The Refuse fund has a negative ending fund balance, however, a much needed rate increase took effect in 2017 that will support the ongoing costs of providing services, while also building up sufficient reserves for future equipment replacements and other unforeseen emergencies. The Refuse Fund balance is expected to be positive by the end of 2018.

GENERAL FUND BUDGETARY HIGHLIGHTS

During the year, the 2017 General Fund Expenditure budget was increased from \$61.9 million to \$62.2 million, consisting entirely of the carry forward of appropriations for outstanding encumbrances/commitments which were to be funded from General Fund reserves.

Total General Fund revenues were originally budgeted at \$66.0 million, with only a slight increase of \$275,000 in the final budget. Actual revenue increased by \$136,579, above amended budget projections due primarily to higher investment return than predicted.

General Fund expenditures, including other financing uses, totaled \$65.9 million, less than the final budget of \$67.2 million by \$1.2 million. These expenditure savings happened mainly as a result of constant vigilance by management and salary savings achieved by delays in filling vacant positions as employees retired or left to take other positions.

The General Fund budget is typically built assuming positive variances in both revenue and expenditures. Revenue is conservatively estimated, while expenditure estimates utilize highest probable costs. Historically, actual amounts have been close to “break even,” with actual revenues slightly exceeding expenditures. In 2017, revenue was \$136,579 more than budgeted, while expenditures were \$389,506 less than budgeted, resulting in a net positive change in budgeted fund balance of \$526,085.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The City of Yakima’s net investment in capital assets, including construction in progress, for its governmental and business-type activities as of December 31, 2017, amounts to \$360.3 million (net of accumulated depreciation). This investment in capital assets includes land, buildings, system improvements, machinery and equipment, park facilities, infrastructure, and construction in progress on buildings and systems.

Governmental Activities: Capital assets from governmental activities decreased \$5.5 million, decreasing from \$197.6 million in 2016 to \$192.1 million in 2017. This was due to a decrease in capital asset additions while depreciation remained similar to 2016.

Business-Type Activities: Business-type capital activities decreased by \$2.4 million, attributable primarily to the completion of capital improvements made at the Yakima Air Terminal in 2016, offset by depreciation.

CAPITAL ASSETS (NET OF DEPRECIATION)

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Capital assets						
Land	\$ 17,884,343	\$ 16,983,321	\$ 5,523,404	\$ 5,523,404	\$ 23,407,747	\$ 22,506,725
Buildings	31,124,983	32,412,303	26,153,747	27,900,802	57,278,730	60,313,105
Improvements other than buildings	7,519,153	7,706,336	97,174,698	101,062,923	104,693,851	108,769,259
Machinery & equipment	18,531,624	18,019,867	16,729,838	16,715,657	35,261,462	34,735,524
Infrastructure	104,839,090	108,056,249	—	—	104,839,090	108,056,249
Intangibles	—	—	982,158	1,083,629	982,158	1,083,629
Construction in progress	12,190,544	14,419,370	21,603,946	18,294,567	33,794,490	32,713,937
Total capital assets	<u>\$ 192,089,737</u>	<u>\$ 197,597,446</u>	<u>\$ 168,167,791</u>	<u>\$ 170,580,982</u>	<u>\$ 360,257,528</u>	<u>\$ 368,178,428</u>

Additional information on the City of Yakima’s capital assets can be found in Note 4 of this report.

Long-Term Debt

On December 31, 2017, the City of Yakima had total bonded debt outstanding of \$44.7 million. Of this amount, \$30.8 million is classified as governmental activity and backed by the full faith and credit of the City. The remaining \$13.9 million represents bonds secured solely by specific revenue sources (i.e. revenue bonds).

New debt issued in 2017 included \$2.2 million for an LED Streetlight project and a \$61,580 SIED loan to Yakima Valley Brewing to help provide infrastructure improvements.

The City's remaining capacity for non-voted debt on December 31, 2017, was approximately \$60.1 million in comparison to the total legal limit of \$89.4 million. The City has a policy of retaining 30% of its non-voted capacity for emergencies. In March, 2017 the City was downgraded to "A+" rating from Standard & Poor's for general obligation debt. This downgrade was the result of weakening economic factors in the City, particularly income levels, as well as recent use of General Fund reserves. The combined Water and Wastewater utility was affirmed at "AA-" in September 2015. A summary of the City's debt follows. Additional information on the City's long-term obligations can be found in Note 9.

OUTSTANDING DEBT

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
General obligation bonds	\$ 30,810,281	\$ 34,181,801	\$ —	\$ —	\$ 30,810,281	\$ 34,181,801
Revenue bonds	—	—	13,879,803	15,489,449	13,879,803	15,489,449
Intergovernmental loans	5,719,371	6,839,131	18,325,171	19,800,326	24,044,542	26,639,457
Other debt	4,254,649	2,930,077	—	—	4,254,649	2,930,077
Total outstanding debt	<u>\$ 40,784,301</u>	<u>\$ 43,951,009</u>	<u>\$ 32,204,974</u>	<u>\$ 35,289,775</u>	<u>\$ 72,989,275</u>	<u>\$ 79,240,784</u>

ECONOMIC FACTORS

There are a number of factors that have a fiscal impact on various revenues of the City, including voter approved initiatives over the last few years, as well as changes in State and Federal regulations. Following is a list of significant factors, which have an impact on the City's revenues. The City is committed to the continued application of sound fiscal management practices to ensure balanced budgets are maintained and critical core services are provided to our citizens.

- In 2001 state voters approved Initiative 747, which capped property tax levy growth each year at a maximum of 1%, plus any additions for annexations and new construction. This initiative represents a restriction on local government revenue growth, which makes budget balancing more difficult because actual inflation rates have grown at an average of 3 times the 1% limitation.
- The Downtown area is in transition from a retail center to a central business district. The City has actively participated in several projects to upgrade the downtown over the past 6 years, including infrastructure and pedestrian improvements in the downtown core, and the upgrade/expansion of the historic City owned Capitol Theatre, located in the center of the downtown area. The City completed a Downtown Master Plan in 2013, and design work on projects identified in the Plan is in process in 2017.
- The unemployment rate (8.2% as of December, 2017) in the County continues to be higher than the state and national average. The County's predominant industry is agriculture and related support. This industry has a history of high unemployment rates, seasonal employment, and low median household income (Yakima is 60.0% of the state average). However, the agriculture based local economy was not as negatively affected in

the recent severe national recession as many other cities around the state and country. Yakima County is experiencing growth in total employment. Between April of 2017 and 2018, the Yakima County non-farm labor market added 3,367 jobs, a 2.7% upturn, and by April of 2018, the unemployment rate had dipped to 5.5%, the lowest recorded rate of unemployment since records have been kept.

- Efforts to diversify our economic base include expansion of the current community college to offer four-year degree programs through major state institutions, including Washington State University and University of Washington. Additionally, a medical school began instruction in late 2008 - the first class graduated in May, 2011. A local technical institute expanded in 2015, and is currently offering 13 different programs.
- A major economic development initiative that the City embarked on is a competitive state redevelopment/tax increment program called Local Infrastructure Financing Tool (LIFT), as set forth in RCW 39.102. The redevelopment area consists of 556 acres adjacent to Interstate 82, formerly used as a sawmill and plywood plant. The City received an award of up to \$1 million per year for 25 years from the state to support required infrastructure improvements to service the new mixed use proposed development. The first year of participation by the state was 2011. This project is expected to move forward at a more rapid pace as the coordination of the project with Yakima County and the State Department of Transportation, as well as the current landowners, is progressing.
- In 2015, City voters approved a Charter amendment to designate \$750,000 annually to a Parks Capital program. The amount grows annually with the consumer price index, and will service the debt on two projects. The City has partnered with 2 local non-profits, developing a multipurpose sports complex, and a new aquatic center.
- In 2017, City Council approved two revenue measures for the 2018 budget. The first was to fund the Transportations Benefit District, which will begin assessing a \$20 car tab fee for effective dates on or after July 1st. The Assessment is budgeted to increase general government revenue by up to \$1.4 million/year, and will be used to fund Street projects. The second revenue measure was to lift the utility tax cap, which affects only the largest utility customers, and is budgeted to increase general government revenues by an additional \$500,000/year.

The 2018 budget is balanced for all funds, within guidelines established by city management, to accomplish municipal service levels and priorities set by City Council. For the 2018 budget, the major revenues were estimated assuming the continued growth of the local economy. This growth was allocated to programs in alignment with the Council's strategic priorities of public safety; improving the built environment; economic development; public trust and accountability; and partnership development. To date, the improvements in revenues are continuing, and General Fund is within the expected parameters. Overall, citywide budget results are performing as expected.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City of Yakima's finances for all those with an interest in the government's finances. This report, along with the City's published budget documents are posted on the City's website at www.yakimawa.gov/services/finance. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to: City of Yakima – Finance Department, 129 North Second Street, Yakima, WA 98901.

STATEMENT OF NET POSITION

December 31, 2017

Page 1 of 2

	Governmental Activities	Business-Type Activities	Total
Assets			
Current Assets			
Cash and cash equivalents	\$ 13,785,842	\$ 3,776,134	\$ 17,561,976
Cash with fiscal agent	2,680,731	15,656	2,696,387
Investments	15,029,048	37,289,693	52,318,741
Receivables, net allowance for uncollectible accounts			
Taxes	5,548,630	1,160,397	6,709,027
Accounts	4,468,132	3,951,815	8,419,947
Notes and contracts receivable	3,706,457	168,691	3,875,148
Due from other governments	102,316	2,543,271	2,645,587
Interest receivable	102,022	—	102,022
Inventories and prepayments	790,365	392,565	1,182,930
Total current assets	<u>46,213,543</u>	<u>49,298,222</u>	<u>95,511,765</u>
Noncurrent assets			
Restricted cash	—	1,835,000	1,835,000
Capital assets not being depreciated			
Land	17,884,343	5,523,404	23,407,747
Construction in progress	12,190,544	21,603,946	33,794,490
Capital assets, net of accumulated depreciation			
Buildings	31,124,983	26,153,747	57,278,730
Machinery, equipment & vehicles	18,531,624	16,729,838	35,261,462
Infrastructure	104,839,090	—	104,839,090
Other improvements & utility systems	7,519,153	97,174,698	104,693,851
Intangibles	—	982,158	982,158
Other noncurrent assets			
Net pension asset	14,249,938	—	14,249,938
Total noncurrent assets	<u>206,339,675</u>	<u>170,002,791</u>	<u>376,342,466</u>
Total assets	<u>252,553,218</u>	<u>219,301,013</u>	<u>471,854,231</u>
Deferred outflows of resources			
Deferred amount on refunding	—	318,973	318,973
Deferred outflows related to pension	3,111,008	1,076,982	4,187,990
Total deferred outflows of resources	<u>3,111,008</u>	<u>1,395,955</u>	<u>4,506,963</u>
Total assets & deferred outflows of resources	<u>255,664,226</u>	<u>220,696,968</u>	<u>476,361,194</u>

The Notes to the Financial Statements, found in the Basic Financial section, are an integral part of this statement.

STATEMENT OF NET POSITION

December 31, 2017

Page 2 of 2

	Governmental Activities	Business-Type Activities	Total
Liabilities			
Current liabilities			
Accounts payable	3,914,743	868,685	4,783,428
Retainage payable	199,199	169,976	369,175
Claims & judgments payable	1,700,000	—	1,700,000
Accrued salaries and benefits	6,132,540	1,423,194	7,555,734
Compensated absences	994,237	200,326	1,194,563
Custodial accounts	1,050,507	1,008,939	2,059,446
Due to other governments	9,721	1,715	11,436
Other current liabilities	67,937	25,746	93,683
Interest payable	193,310	179,121	372,431
Debt principal due within one year	4,745,852	3,026,094	7,771,946
Total current liabilities	19,008,046	6,903,796	25,911,842
Noncurrent liabilities			
Compensated absences	7,756,731	1,462,158	9,218,889
Pension Liability	25,182,500	7,551,580	32,734,080
Other postemployment benefits (OPEB)	20,459,777	1,808,446	22,268,223
Debt payments due more than one year	36,038,448	29,178,879	65,217,327
Total noncurrent liabilities	89,437,456	40,001,063	129,438,519
Total liabilities	108,445,502	46,904,859	155,350,361
Deferred inflows of resources			
Deferred inflows related to pension	5,418,119	1,265,277	6,683,396
Total deferred inflows of resources	5,418,119	1,265,277	6,683,396
Total liabilities & deferred inflows of resources	113,863,621	48,170,136	162,033,757
Net position			
Net investment in capital assets	151,106,237	136,111,813	287,218,050
Restricted for:			
Public safety & emergency programs	1,144,277	—	1,144,277
Arterial street construction & maintenance	1,523,066	—	1,523,066
Housing & economic development	729,274	—	729,274
Debt service	247,557	1,835,000	2,082,557
Capital improvements	4,238,072	—	4,238,072
Tourism & conventions	1,528,321	—	1,528,321
Pension plans	15,609,105	—	15,609,105
Unrestricted	(34,325,302)	34,580,018	254,716
Total net position	\$ 141,800,607	\$ 172,526,831	\$ 314,327,438

The Notes to the Financial Statements, found in the Basic Financial section, are an integral part of this statement.

STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2017

Page 1 of 1

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Grants & Contributions		Government Activities	Business Activities	Total
			Operating	Capital			
Governmental activities							
General government	\$ 12,577,931	\$ 419,457	\$ —	\$ —	\$ (12,158,474)	\$ —	\$ (12,158,474)
Public safety	47,245,264	8,681,414	3,712,845	—	(34,851,005)	—	(34,851,005)
Utilities	707,982	257,472	—	—	(450,510)	—	(450,510)
Transportation	12,837,330	44,131	1,487,740	1,991,995	(9,313,464)	—	(9,313,464)
Economic environment	7,307,839	1,476,405	1,553,518	—	(4,277,916)	—	(4,277,916)
Public health services	626,296	20,904	60,612	—	(544,780)	—	(544,780)
Cultural and recreational	7,492,432	3,990,169	166,989	348,261	(2,987,013)	—	(2,987,013)
Interest on long-term debt	1,492,793	—	—	—	(1,492,793)	—	(1,492,793)
Total governmental activities	90,287,867	14,889,952	6,981,704	2,340,256	(66,075,955)	—	(66,075,955)
Business-type activities							—
Transit	9,489,641	1,346,898	2,577,473	1,600,000	—	(3,965,270)	(3,965,270)
Airport	2,235,534	1,427,780	24,410	1,230,909	—	447,565	447,565
Refuse	4,846,811	6,966,819	—	55,000	—	2,175,008	2,175,008
Wastewater	17,326,405	20,992,895	—	1,072,104	—	4,738,594	4,738,594
Water	7,749,353	9,177,007	—	523,000	—	1,950,654	1,950,654
Irrigation	2,362,997	3,087,175	—	—	—	724,178	724,178
Stormwater	2,890,477	3,683,662	—	308,559	—	1,101,744	1,101,744
Total business-type activities	46,901,218	46,682,236	2,601,883	4,789,572	—	7,172,473	7,172,473
Total activities	\$ 137,189,085	\$ 61,572,188	\$ 9,583,587	\$ 7,129,828	(66,075,955)	7,172,473	(58,903,482)
General revenues and transfers							
Taxes							
Property taxes					18,278,481	—	18,278,481
Sales and use taxes					23,146,192	5,886,780	29,032,972
Other taxes and fees					13,452,504	—	13,452,504
Unrestricted investment earnings					710,775	6,965	717,740
Judgements and Settlements					249,378	—	249,378
Miscellaneous					15,303	4,304	19,607
Gain (loss) on disposition of capital assets					(90,718)	28,419	(62,299)
Transfers					8,263,074	(8,263,074)	—
Total general revenues, special items & transfers					64,024,989	(2,336,606)	61,688,383
Change in net position					(2,050,966)	4,835,867	2,784,901
Net position - beginning					151,112,284	167,690,965	318,803,249
Direct adjustment to beginning net position - GASB 73					(7,260,710)	—	(7,260,710)
Net position - ending					\$ 141,800,608	\$ 172,526,832	\$ 314,327,440

The Notes to the Financial Statements, found in the Basic Financial section, are an integral part of this statement.

**BALANCE SHEET
GOVERNMENT FUNDS**

December 31, 2017

Page 1 of 1

	General Fund	Neighborhood Development Fund	Other Governmental Funds	Total Governmental Funds
Assets				
Cash and cash equivalents	\$ 1,744,523	\$ 506,964	\$ 9,689,082	\$ 11,940,569
Cash with fiscal agent	61,896	—	2,618,889	2,680,785
Investments	6,732,227	—	5,680,568	12,412,795
Receivables, net allowance for uncollectible accounts				
Taxes	5,086,914	—	461,716	5,548,630
Accounts	2,324,774	384,836	517,105	3,226,715
Notes and contracts receivable	—	3,528,088	43,860	3,571,948
Due from other governments	37,035	—	65,281	102,316
Due from other funds	1,100,000	—	—	1,100,000
Interest receivable	102,022	—	—	102,022
Inventories and prepayments	10,000	—	238,610	248,610
Total assets	\$ 17,199,391	\$ 4,419,888	\$ 19,315,111	\$ 40,934,390
Deferred outflows of resources	—	—	—	—
Total assets & deferred outflows of resources	17,199,391	4,419,888	19,315,111	40,934,390
Liabilities				
Accounts payable	\$ 1,135,293	\$ 163,842	\$ 2,230,333	\$ 3,529,468
Retainage payable	—	—	199,199	199,199
Accrued salaries and benefits	4,903,242	44,375	935,664	5,883,281
Custodial accounts	403,237	—	582,614	985,851
Due to other governments	1,394	374	7,044	8,812
Due to other funds	—	—	1,550,000	1,550,000
Other current liabilities	67,937	—	—	67,937
Total liabilities	6,511,103	208,591	5,504,854	12,224,548
Deferred inflows of resources				
Deferred unavailable revenue/taxes	353,439	—	157,850	511,289
Unavailable revenue and notes	1,584,125	3,528,088	71,435	5,183,648
Total deferred inflows of resources	1,937,564	3,528,088	229,285	5,694,937
Total liabilities & deferred inflows of resources	8,448,667	3,736,679	5,734,139	17,919,485
Fund balance				
Nonspendable	—	—	667,296	667,296
Restricted	—	683,209	8,718,624	9,401,833
Committed	1,359,167	—	4,020,926	5,380,093
Assigned	—	—	1,256,175	1,256,175
Unassigned	7,391,559	—	(1,082,051)	6,309,508
Total fund balance	8,750,726	683,209	13,580,970	23,014,905
Total liabilities, deferred inflows & fund balances	\$ 17,199,393	\$ 4,419,888	\$ 19,315,109	\$ 40,934,390

The Notes to the Financial Statements, found in the Basic Financial section, are an integral part of this statement.

**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENT FUNDS
TO THE STATEMENT OF NET POSITION**

December 31, 2017

Page 1 of 1

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

Total fund balances - government funds (previous page)	\$ 23,014,905
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	181,878,024
Other long-term assets are not available to pay for current-period expenditures and, therefore, are reported as unavailable revenue in the funds.	5,694,938
Internal service funds are used by management to charge the costs of services to individual funds. The assets and liabilities of the internal service funds are included in government activities in the statement of net position.	12,565,424
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	(49,460,222)
Pension and other postemployment benefits are not due and payable in the current period and therefore are not reflected in the funds	(31,892,462)
Net position of governmental activities	<u>\$ 141,800,607</u>

The Notes to the Financial Statements, found in the Basic Financial section, are an integral part of this statement.

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

For the Year Ended December 31, 2017

Page 1 of 1

	General Fund	Neighborhood Development Fund	Other Governmental Funds	Total Governmental Funds
Revenues				
Taxes and assessments	\$ 50,201,593	\$ —	\$ 13,914,814	\$ 64,116,407
Licenses and permits	1,460,660	—	662,339	2,122,999
Intergovernmental revenues	2,857,044	896,038	3,308,345	7,061,427
Charges for services	9,050,510	—	5,988,282	15,038,792
Fines and forfeitures	2,119,870	—	—	2,119,870
Contributions and donations	6,437	—	503,606	510,043
Investment earnings	668,308	21,393	59,470	749,171
Other revenue	68,199	280,754	1,401,520	1,750,473
Total revenues	66,432,621	1,198,185	25,838,376	93,469,182
Expenditures				
Current				
General government	14,040,560	—	873,871	14,914,431
Public safety	42,837,423	—	5,507,407	48,344,830
Utilities	1,565,958	—	291,172	1,857,130
Transportation	636,979	—	7,274,834	7,911,813
Economic environment	1,622,688	1,529,075	1,134,046	4,285,809
Public health services	24,866	—	570,912	595,778
Cultural and recreational	—	—	5,834,884	5,834,884
Capital outlay				
General government	74,470	—	24,162	98,632
Public safety	—	—	1,582,765	1,582,765
Utilities	—	—	70,874	70,874
Transportation	15,792	—	2,097,421	2,113,213
Cultural and recreational	—	—	2,047,940	2,047,940
Debt service				
Principal	865,164	—	4,611,095	5,476,259
Interest and related charges	119,945	—	1,548,608	1,668,553
Total Expenditures	61,803,845	1,529,075	33,469,991	96,802,911
Excess (deficiency) of revenue over (under) expenditure	4,628,776	(330,890)	(7,631,615)	(3,333,729)
Other financing (sources) uses				
Transfers in	—	—	7,873,765	7,873,765
Transfers out	(4,208,830)	—	(3,764,533)	(7,973,363)
Proceeds from issuance of long-term debt	61,580	—	2,400,000	2,461,580
Sale of capital assets	2,291	—	65,485	67,776
Total other financing sources (uses)	(4,144,959)	—	6,574,717	2,429,758
Net change in fund balance	483,817	(330,890)	(1,056,898)	(903,971)
Fund balance - beginning	8,266,909	1,014,099	14,637,868	23,918,876
Fund balances - ending	\$ 8,750,726	\$ 683,209	\$ 13,580,970	\$ 23,014,905

The Notes to the Financial Statements, found in the Basic Financial section, are an integral part of this statement.

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

For the Year Ended December 31, 2017

Page 1 of 1

Net change in fund balances as shown on Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balance:	\$ (903,970)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.	(6,548,714)
In the statement of activities, only the gain on the sale of fund assets is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net position differs from the change in fund balance by the cost of the fund assets. This also includes donations of capital assets and infrastructure obtained by annexation.	691,087
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(552,054)
The issuance of debt proceeds provide current financial resources to governmental funds, while the repayment of principal consumes the current financial resources of governmental funds. Neither has any effect on Net Position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of debt and related items.	3,190,440
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds (compensated absences, OPEB, inventory).	404,608
Internal service funds are used by management to charge the costs of services to individual funds. The net revenue (expenses) of the internal service funds is reported with governmental activities.	1,667,636
Change in net position, as reflected on the Statement of Activities	<u>\$ (2,050,967)</u>

The Notes to the Financial Statements, found in the Basic Financial section, are an integral part of this statement.

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET & ACTUAL - GENERAL FUND**

For the Year Ended December 31, 2017

Page 1 of 1

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes and assessments	\$ 50,404,990	\$ 50,589,990	\$ 50,201,593	\$ (388,397)
Licenses and permits	1,597,700	1,597,700	1,460,660	(137,040)
Intergovernmental revenues	2,542,678	2,542,678	2,857,044	314,366
Charges for services	9,297,794	9,387,794	9,050,510	(337,284)
Fines and forfeitures	1,728,610	1,728,610	2,119,870	391,260
Contributions and donations	3,750	3,750	6,437	2,687
Investment earnings	292,500	292,500	668,308	375,808
Other revenue	153,020	153,020	68,199	(84,821)
Total revenues	66,021,042	66,296,042	66,432,621	136,579
Expenditures				
Current				
General government	14,523,383	14,535,433	14,040,560	494,873
Public safety	42,071,451	42,244,401	42,837,423	(593,022)
Utilities	1,579,646	1,669,646	1,565,958	103,688
Transportation	727,182	727,182	636,979	90,203
Economic environment	1,905,580	1,905,580	1,622,688	282,892
Public health services	26,000	26,000	24,866	1,134
Capital outlay				
General government	82,000	82,000	74,470	7,530
Transportation	18,000	18,000	15,792	2,208
Debt service				
Principal	865,164	865,164	865,164	—
Interest and related charges	119,945	119,945	119,945	—
Total Expenditures	61,918,351	62,193,351	61,803,845	389,506
Excess (deficiency) of revenue over (under) expenditure	4,102,691	4,102,691	4,628,776	526,085
Other financing (sources) uses				
Transfers out	(5,374,144)	(5,374,144)	(4,208,830)	1,165,314
Proceeds from issuance of long-term debt	—	—	61,580	61,580
Sale of capital assets	400,000	400,000	2,291	(397,709)
Total other financing sources (uses)	(4,974,144)	(4,974,144)	(4,144,959)	829,185
Net change in fund balance	(871,453)	(871,453)	483,817	1,355,270
Fund balance - beginning	6,824,252	8,266,909	8,266,909	—
Fund balances - ending	\$ 5,952,799	\$ 7,395,456	\$ 8,750,726	\$ 1,355,270

The Notes to the Financial Statements, found in the Basic Financial section, are an integral part of this statement.

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET & ACTUAL - NEIGHBORHOOD DEVELOPMENT**

For the Year Ended December 31, 2017

Page 1 of 1

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Intergovernmental revenues	\$ 1,319,236	\$ 3,972,433	\$ 896,038	\$ (3,076,395)
Investment earnings	23,970	23,970	21,393	(2,577)
Other revenue	144,962	144,962	280,754	135,792
Total revenues	<u>1,488,168</u>	<u>4,141,365</u>	<u>1,198,185</u>	<u>(2,943,180)</u>
Expenditures				
Current				
Economic environment	1,486,742	4,146,239	1,529,075	2,617,164
Excess (deficiency) of revenue over (under) expenditure	1,426	(4,874)	(330,890)	(326,016)
Net change in fund balance	1,426	(4,874)	(330,890)	(326,016)
Fund balance - beginning	1,014,099	1,014,099	1,014,099	—
Fund balances - ending	<u>\$ 1,015,525</u>	<u>\$ 1,009,225</u>	<u>\$ 683,209</u>	<u>\$ (326,016)</u>

The Notes to the Financial Statements, found in the Basic Financial section, are an integral part of this statement.

STATEMENT OF NET POSITION
PROPRIETARY FUNDS

December 31, 2017

Page 1 of 2

	Business-Type Activities							Gov't
	Transit	Wastewater	Water	Irrigation	Airport	Other	Internal	
						Enterprise		Service
						Funds	Funds	
Assets								
Current Assets								
Cash and cash equivalents	\$ 301,304	\$ 1,082,266	\$ 642,460	\$ 236,897	\$ 597,516	\$ 915,691	\$ 3,776,134	\$ 1,845,274
Cash with fiscal agent	—	—	—	—	—	15,656	15,656	—
Investments	4,917,662	17,362,847	5,777,445	3,866,462	—	5,365,277	37,289,693	2,616,253
Receivables, net allowance for uncollectible accounts								
Taxes	1,086,843	—	—	—	—	73,555	1,160,398	—
Accounts	92,061	2,170,835	755,389	258,539	44,584	630,407	3,951,815	1,241,417
Notes and contracts receivable	—	—	—	—	—	168,691	168,691	134,509
Due from other governments	2,360,713	—	—	—	182,558	—	2,543,271	—
Due from other funds	—	—	—	—	—	—	—	450,000
Inventories and prepayments	—	—	392,565	—	—	—	392,565	541,755
Total current assets	8,758,583	20,615,948	7,567,859	4,361,898	824,658	7,169,277	49,298,223	6,829,208
Noncurrent assets								
Restricted cash	—	1,600,000	235,000	—	—	—	1,835,000	—
Capital assets not being depreciated								
Land	1,182,989	649,505	173,613	98,500	3,418,797	—	5,523,404	—
Construction in progress	—	2,104,024	6,453,471	1,799,348	11,247,103	—	21,603,946	—
Capital assets, net of accumulated depreciation								
Buildings	2,143,387	18,572,383	4,741,726	292,972	403,279	—	26,153,747	6,187
Machinery, equipment & vehicles	6,188,079	9,585,375	281,363	1,866	666,770	6,385	16,729,838	9,744,878
Other improve & utility systems	929,601	45,039,524	28,187,308	15,857,808	4,862,829	2,297,628	97,174,698	460,649
Intangibles	—	—	171,659	—	810,499	—	982,158	—
Total noncurrent assets	10,444,056	77,550,811	40,244,140	18,050,494	21,409,277	2,304,013	170,002,791	10,211,714
Total assets	19,202,639	98,166,759	47,811,999	22,412,392	22,233,935	9,473,290	219,301,014	17,040,922
Deferred outflows of resources								
Deferred amount on refunding	—	314,651	4,321	—	—	—	318,972	—
Deferred outflows related to pension	253,898	372,006	197,417	53,488	31,207	168,967	1,076,983	199,600
Total deferred outflows of resources	253,898	686,657	201,738	53,488	31,207	168,967	1,395,955	199,600
Total assets & deferred outflows	19,456,537	98,853,416	48,013,737	22,465,880	22,265,142	9,642,257	220,696,969	17,240,522

The Notes to the Financial Statements, found in the Basic Financial section, are an integral part of this statement.

**STATEMENT OF NET POSITION
 PROPRIETARY FUNDS**

December 31, 2017

Page 2 of 2

	Transit	Wastewater	Water	Irrigation	Airport	Other Enterprise Funds	Total	Gov't Activities Internal Service Funds
Liabilities								
Current liabilities								
Accounts payable	147,891	248,681	105,991	2,153	68,914	295,055	868,685	385,275
Retainage payable	—	111,710	11,443	—	33,742	13,081	169,976	—
Claims & judgments payable	—	—	—	—	—	—	—	1,700,000
Accrued salaries and benefits	351,959	434,818	260,199	69,126	72,287	234,805	1,423,194	249,259
Compensated absences	42,870	66,560	38,331	10,608	8,473	33,484	200,326	31,609
Custodial accounts	—	459,296	301,896	—	33,146	214,601	1,008,939	64,711
Due to other governments	243	393	113	4	869	92	1,714	908
Other current liabilities	—	2,170	23,131	—	—	444	25,745	—
Interest payable	—	95,525	26,481	57,114	—	—	179,120	—
Debt principal due within one year	—	1,914,250	961,844	150,000	—	—	3,026,094	—
Total current liabilities	542,963	3,333,403	1,729,429	289,005	217,431	791,562	6,903,793	2,431,762
Noncurrent liabilities								
Compensated absences	310,048	490,319	280,897	72,925	58,722	249,246	1,462,157	236,747
Pension Liability	1,756,331	2,458,007	1,381,961	376,509	348,698	1,230,074	7,551,580	1,437,580
Other postemployment benefits (OPEB)	422,462	631,394	329,374	89,533	52,490	283,193	1,808,446	328,836
Debt payments due more than one year	—	16,999,000	8,718,117	3,461,763	—	—	29,178,880	—
Total noncurrent liabilities	2,488,841	20,578,720	10,710,349	4,000,730	459,910	1,762,513	40,001,063	2,003,163
Total liabilities	3,031,804	23,912,123	12,439,778	4,289,735	677,341	2,554,075	46,904,856	4,434,925
Deferred inflows of resources								
Deferred inflows related to pension	294,715	414,599	231,591	63,057	56,044	205,271	1,265,277	240,172
Total liabilities & deferred inflows	3,326,519	24,326,722	12,671,369	4,352,792	733,385	2,759,346	48,170,133	4,675,097
Net position								
Net investment in capital assets	10,444,057	57,240,503	30,322,056	14,438,731	21,375,535	2,290,932	136,111,814	10,211,713
Restricted for:								
Debt service	—	1,600,000	235,000	—	—	—	1,835,000	—
Unrestricted	5,685,961	15,686,190	4,785,311	3,674,358	156,222	4,591,977	34,580,019	2,353,710
Total net position	\$ 16,130,018	\$ 74,526,693	\$ 35,342,367	\$ 18,113,089	\$ 21,531,757	\$ 6,882,909	\$ 172,526,833	\$ 12,565,423

The Notes to the Financial Statements, found in the Basic Financial section, are an integral part of this statement.

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

For the Year Ended December 31, 2017

Page 1 of 1

	Business-Type Activities						Gov't	
	Transit	Wastewater	Water	Irrigation	Airport	Other	Internal	
						Enterprise	Service	
					Funds	Total	Funds	
Operating revenues								
Charges and fees for services	\$ 1,204,834	\$ 20,952,097	\$ 9,149,780	\$ 3,087,175	\$ 517,447	\$10,646,414	\$ 45,557,747	\$ 3,331,220
Charges for insurance	—	—	—	—	—	—	—	5,613,697
Employer contributions	—	—	—	—	—	—	—	11,911,407
Employee contributions	—	—	—	—	—	—	—	1,908,201
Other operating revenue	142,064	40,799	27,227	—	910,333	4,066	1,124,489	4,676
Total operating revenues	1,346,898	20,992,896	9,177,007	3,087,175	1,427,780	10,650,480	46,682,236	22,769,201
Operating expenses								
Personnel services	3,982,201	4,590,080	2,632,765	755,905	854,838	2,593,630	15,409,419	2,743,292
Materials and supplies	624,239	862,454	607,428	80,314	51,889	354,354	2,580,678	1,517,680
Contractual services	3,749,228	10,823,190	4,661,170	900,025	351,236	5,990,234	26,475,083	6,183,989
Claims and other benefits	—	—	—	—	—	—	—	11,460,890
Depreciation	1,133,973	4,579,029	1,529,252	445,859	977,571	84,680	8,750,364	1,205,231
Total operating expense	9,489,641	20,854,753	9,430,615	2,182,103	2,235,534	9,022,898	53,215,544	23,111,082
Operating income (loss)	(8,142,743)	138,143	(253,608)	905,072	(807,754)	1,627,582	(6,533,308)	(341,881)
Nonoperating revenues (expense)								
Grants and subsidies	10,049,626	131,052	26,075	—	1,101,597	80,000	11,388,350	49,247
Interest revenue	4,687	1,500	—	500	228	51	6,966	114,977
Other nonoperating revenue	4,304	—	—	—	—	—	4,304	660,911
Interest & other debt service costs	—	(431,708)	(86,818)	(180,894)	—	—	(699,420)	—
Gain (loss) disposal of capital assets	21,838	—	5,780	800	—	—	28,418	(164,543)
Total nonoperating revenue (exp)	10,080,455	(299,156)	(54,963)	(179,594)	1,101,825	80,051	10,728,618	660,592
Income (loss) before conts & transfers	1,937,712	(161,013)	(308,571)	725,478	294,071	1,707,633	4,195,310	318,711
Capital contributions	14,628	941,052	496,925	—	153,722	283,559	1,889,886	—
Transfers in	—	32,621	3,896	—	20,000	—	56,517	2,212,618
Transfers (out)	—	(282,928)	(176,021)	(33,896)	(10,000)	(803,000)	(1,305,845)	(863,692)
Change in net position	1,952,340	529,732	16,229	691,582	457,793	1,188,192	4,835,868	1,667,637
Net position - beginning	14,177,678	73,996,962	35,326,138	17,421,506	21,073,965	5,694,716	167,690,965	10,897,788
Net position - ending	\$ 16,130,018	\$ 74,526,694	\$ 35,342,367	\$ 18,113,088	\$ 21,531,758	\$ 6,882,908	\$ 172,526,833	\$ 12,565,425

The Notes to the Financial Statements, found in the Basic Financial section, are an integral part of this statement.

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS

For the Year Ended December 31, 2017

Page 1 of 2

	Business-Type Activities						Gov't	
	Transit	Wastewater	Water	Irrigation	Airport	Other	Activities	
						Enterprise	Internal	
					Funds	Total	Service	
							Funds	
Cash flows from operating activities								
Receipts from customers	\$ 1,869,668	\$ 20,994,701	\$ 8,983,062	\$ 3,127,264	\$ 977,661	\$ 10,761,815	\$ 46,714,171	\$ 10,380,947
Contributions rec'd employer & employee	—	—	—	—	—	—	—	13,783,223
Payments to suppliers & service providers	(4,353,939)	(11,570,747)	(5,169,881)	(990,800)	(537,220)	(6,158,985)	(28,781,572)	(9,794,005)
Payments to employees salaries & benefits	(4,122,684)	(4,929,670)	(2,713,993)	(768,695)	(757,914)	(2,603,940)	(15,896,896)	(2,898,902)
Other Operating Revenues	142,064	40,799	27,227	—	910,333	4,066	1,124,489	4,676
Payments to claimants & beneficiaries	—	—	—	—	—	—	—	(11,460,890)
Net cash flows from operating activities	<u>(6,464,891)</u>	<u>4,535,083</u>	<u>1,126,415</u>	<u>1,367,769</u>	<u>592,860</u>	<u>2,002,956</u>	<u>3,160,192</u>	<u>15,049</u>
Cash from noncapital financing activities								
Sales tax received	5,883,065	—	—	—	24,410	—	5,907,475	715,084
Operating grants	2,562,846	—	—	—	—	55,000	2,617,846	—
Net cash from noncapital financing activities	<u>8,445,911</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>24,410</u>	<u>55,000</u>	<u>8,525,321</u>	<u>715,084</u>
Cash flows from capital financing activities								
Proceeds from disposal of property	127,009	—	5,780	800	—	—	133,589	84,297
Capital grants & contributions	1,600,000	825,874	373,225	—	1,077,187	25,000	3,901,286	(1,808,914)
Capital Expenditures	—	(1,926,603)	(951,844)	(150,000)	—	—	(3,028,447)	—
Acquisition & const of capital assets	(2,143,485)	(1,641,335)	(517,219)	(30,275)	(1,243,905)	(18,210)	(5,594,429)	—
Interest and related charges paid	—	(472,463)	(99,942)	(175,208)	—	—	(747,613)	—
Other receipts	4,304	—	—	—	—	—	4,304	—
Transfers in	—	32,621	3,896	—	20,000	—	56,517	2,212,618
Transfers (out)	—	(282,929)	(176,021)	(33,896)	(10,000)	(803,000)	(1,305,846)	(863,692)
Net cash provided by (used for) financing	<u>(412,172)</u>	<u>(3,464,835)</u>	<u>(1,362,125)</u>	<u>(388,579)</u>	<u>(156,718)</u>	<u>(796,210)</u>	<u>(6,580,639)</u>	<u>(375,691)</u>
Cash flows from investing activities								
Proceeds from sale of investments	3,256,965	17,183,917	5,845,935	2,822,755	—	4,380,989	33,490,561	1,008,551
Interest on investments	4,687	1,500	—	500	228	51	6,966	114,977
Purchase of investments	(4,917,662)	(17,362,847)	(5,777,445)	(3,866,462)	—	(5,365,277)	(37,289,693)	(2,616,253)
Net cash provided by investing activities	<u>(1,656,010)</u>	<u>(177,430)</u>	<u>68,490</u>	<u>(1,043,207)</u>	<u>228</u>	<u>(984,237)</u>	<u>(3,792,166)</u>	<u>(1,492,725)</u>
Net increase (dec) in cash & cash equivalents	(87,162)	892,818	(167,220)	(64,017)	460,780	277,509	1,312,708	(1,138,283)
Cash & cash equivalents - beginning	388,467	1,789,448	1,044,679	300,913	136,736	653,837	4,314,080	2,983,557
Cash & cash equivalents - ending	<u>\$ 301,305</u>	<u>\$ 2,682,266</u>	<u>\$ 877,459</u>	<u>\$ 236,896</u>	<u>\$ 597,516</u>	<u>\$ 931,346</u>	<u>\$ 5,626,788</u>	<u>\$ 1,845,274</u>

The Notes to the Financial Statements, found in the Basic Financial section, are an integral part of this statement.

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS

For the Year Ended December 31, 2017

Page 2 of 2

	Business-Type Activities							Gov't
	Transit	Wastewater	Water	Irrigation	Airport	Other	Internal	
						Enterprise	Service	
					Funds	Total	Funds	
Reconciliation - operating income (loss) to net cash provided (used) for operations								
Operating income (loss)	\$ (8,142,743)	\$ 138,143	\$ (253,608)	905,072	\$ (807,754)	\$ 1,627,583	\$ (6,533,307)	\$ (341,881)
Adj to reconcile operating income (loss) to net cash provided (used) for operations								
Depreciation expense	1,133,973	4,579,029	1,529,252	445,859	977,571	84,680	8,750,364	1,205,232
Change in assets and liabilities								
(Inc) dec in net accounts receivable	(26,819)	42,604	(142,568)	40,089	17,750	115,398	46,454	1,399,646
(Inc) dec in due from other governments	691,653	—	—	—	442,464	—	1,134,117	—
(Inc) dec in inventory	—	—	(24,151)	—	—	—	(24,151)	(21,706)
(Dec) inc in accounts payable	19,528	22,323	87,274	(10,461)	45,620	174,813	339,097	(898,296)
(Dec) inc in accrued liabilities	—	—	—	—	305	—	305	—
(Dec) inc in wages/benefits payable	(25,275)	15,571	(2,029)	3,738	12,066	12,309	16,380	(112,112)
(Dec) inc in compensated absences	22,450	(64,412)	15,255	7,422	(797)	21,736	1,654	(43,500)
(Dec) inc in contracts payable	—	101,686	11,443	—	(180,020)	10,792	(56,099)	—
(Dec) inc in interest payable	—	(9,112)	—	—	—	—	(9,112)	—
(Dec) inc in pension liability	(137,658)	(290,749)	(94,454)	(23,950)	85,655	(44,355)	(505,511)	—
(Dec) inc in claims & judgements	—	—	—	—	—	—	—	(1,172,334)
Total adjustments	1,677,852	4,396,940	1,380,022	462,697	1,400,614	375,373	9,693,498	356,930
Net cash prov (used) for operations	\$ (6,464,891)	\$ 4,535,083	\$ 1,126,414	\$ 1,367,769	\$ 592,860	\$ 2,002,956	\$ 3,160,191	\$ 15,049

The Notes to the Financial Statements, found in the Basic Financial section, are an integral part of this statement.

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS

December 31, 2017

Page 1 of 1

	Agency Fund YakCorps
	<u> </u>
Assets	
Current Assets	
Cash and cash equivalents	\$ 444,809
Receivables, net allowance for uncollectible accounts	
Accounts	<u>34,811</u>
Total current assets	<u>\$ 479,620</u>
Liabilities	
Current liabilities	
Accounts payable	202,485
Due to other governments	<u>807,428</u>
Total current liabilities	<u>\$ 1,009,913</u>
Net position	
Unrestricted	<u>(530,293)</u>
Total net position	<u>(530,293)</u>

The Notes to the Financial Statements, found in the Basic Financial section, are an integral part of this statement.

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Yakima, Washington, conform to Generally Accepted Accounting Principles (GAAP) as applicable to governmental units. The City has adopted the pronouncements of the Governmental Accounting Standards Board (GASB) which is the accepted standard setting body for establishing governmental accounting and financial reporting principles nationally. The following is a summary of the more significant policies. The policies should be reviewed as an integral part of the financial statements and are presented to assist the reader in interpreting the financial statements and other data in this report.

CHANGES IN ACCOUNTING PRINCIPLE

In 2015 the Governmental Accounting Standards Board issued Statement 73 - *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, effective for reporting years beginning after June 15, 2016, however the application of paragraph 115 of this statement was effective beginning in the 2016 reporting year. This provision states that pension funds that are not in a trust meeting certain requirements can no longer be reported as a separate fiduciary fund, and therefore should be consolidated into the General Fund for financial statement reporting. This change in accounting principle had a material impact to the General Fund of the City of Yakima in 2016. In 2017, the rest of the GASB 73 went into effect, which required recording the pension liability for the aforementioned pension funds and resulted in a direct adjustment to the 2016 net position of (\$7.3) million

REPORTING ENTITY

The City of Yakima was incorporated in 1886 and operates under a Council/Manager form of government with a full-time City Manager. The City of Yakima provides a full range of municipal services, which include: police, fire, engineering, parks, cemetery, street, economic development, and administrative services. Included in the City's Enterprise Fund financial reports are: water, irrigation, sanitary wastewater, solid waste, stormwater, transit and the Yakima Air Terminal, which was operated under a joint venture agreement with Yakima County, but became a City department in early 2013.

The City's financial statements include all funds, agencies and boards which are financially accountable to the City. Financial accountability is manifest when the primary government appoints the majority of an organization's governing body and is able to impose its will on that organization or there is a potential for the organization to provide specific financial burdens on the primary government. The primary government may be financially accountable if an organization is fiscally dependent on the primary government regardless of whether the organization has a separately elected governing board, a governing board appointed by a higher level of government, or a jointly appointed board. An organization is fiscally dependent if it is unable to determine its budget without another government having the substantive authority to approve or modify the budget, to levy taxes or set rates or charges without substantive approval by another government, or to issue bonded debt without substantive approval by another government.

Although a separate legal entity, the City has elected to account for the operations of the *Yakima Regional Public Facilities District*, as a blended component unit, in two Nonmajor Special Revenue Funds. The cities of Yakima, Selah and Union Gap originally formed a Public Facilities District (PFD) for the purpose of expanding the Yakima Convention Center and in 2008 added expansion of the Capitol Theatre. The City appoints a majority of the board members and must approve the annual budget. The financial agreement stipulates that all revenue derived by the PFD (primarily two separate state sales tax credits) be transferred to the City and the City will use these funds for the applicable project debt service and operations, and reimbursement of administrative costs of the PFD.

Applying these criteria, the primary government statements consist of the legal entity of the City and the blended component unit of the Yakima Regional Public Facilities District.

Related Organizations – The City’s officials are also responsible for appointing the members of the boards of another organization, but the City’s accountability for this organization does not extend beyond making the appointments.

The *Yakima Housing Authority (YHA)* was created by Resolution No. D-1575, in 1971, and, under certain conditions, can be dissolved by the City. Yet, it is an independent entity with distinct governmental character and organization. The City of Yakima created the Housing Authority per Washington State Revised Code Chapter 35.82 which provides that liabilities incurred by the Housing Authority will be satisfied from its assets, and that no person shall have any right of action against the City on account of its debts, obligations, and liabilities.

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements consist of the statement of net position and the statement of activities. These statements report information on all of the non-fiduciary 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. The City’s policy is to allocate indirect costs to individual functions, if they are non-tax supported.

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; 2) fines and forfeitures; and 3) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment.

Taxes and other items not properly included among program revenues are reported instead as general revenues.

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

MEASUREMENT FOCUS, BASIS OF ACCOUNTING & FINANCIAL STATEMENT PRESENTATION

Government Wide

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. Under this measurement focus, 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.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City’s utility functions and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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

Fund Financial Statements

All governmental fund financial statements are reported using the “current financial resources” measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within sixty 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.

Certain charges for service, sales based taxes, and interest associated within the current period are considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. 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. Grants are considered measurable and available to the extent that expenditures have been made. Other intergovernmental revenues are considered measurable and available when earned. Other revenues such as state shared revenue, licenses, fines and fees are not considered susceptible to accrual since they are not generally measurable until received. Expenditures are generally recognized when the related fund liability is incurred, as under accrual accounting. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City of Yakima reports the following major governmental funds:

- The **General Fund** is the City’s primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The **Neighborhood Development Fund** accounts for grant programs supported by the Federal Housing and Urban Development grants which are used to improve housing conditions for low income families and seniors in Yakima.

The City reports the following enterprise funds as major funds:

- The **Transit Fund** accounts for the operation of the City Transit System, funded primarily by 0.3% sales tax, federal grants and fares.
- The **Water and Wastewater Funds** account for the provision of water and wastewater services to the residents of the City and other outside utility agreements.
- The **Irrigation Fund** accounts for the operation, maintenance and reconstruction of the existing irrigation system.
- The **Airport Fund** is responsible for the operation, maintenance and any construction projects at the Airport facility.

Additionally, the government reports the following fund types:

- **Internal Service Funds** account for fleet management services, liability insurance, employee benefit reserves, and public works administration services provided to other departments or agencies of the government, or to other governments, on a cost reimbursement basis.
- **Fiduciary Funds** are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governments, or other funds. Fiduciary funds use the economic resources measurement focus and the accrual basis of accounting, with the exception of agency funds which technically have no measurement focus, but do employ the accrual basis of accounting for purposes of asset and liability recognition. In accordance with GASB 73, the Firemen's Relief and Pension Fiduciary Fund is now being reported as part of the General Fund.

- *Agency Funds* account for assets held by the City as an agent for joint, intergovernmental operations through interlocal agreements. Agency funds are custodial in nature (assets equal liabilities) and do not involve the measurement of the results of operations. The City is the fiduciary agent for the fiscal activity of Yakima Consortium for Regional Public Safety (YAKCORPS).

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 proprietary funds' principal ongoing operations. The principal operating revenues of the water, wastewater, refuse, stormwater and irrigation enterprise funds and of the government's internal service funds are charges to customers for sales and services. 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.

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

ASSETS, LIABILITIES, DEFERRED OUTFLOWS / INFLOWS, AND FUND BALANCE / NET POSITION

Cash, Cash Equivalents and Investments

Cash is considered to be cash on hand and demand deposits. Cash equivalents are highly liquid investments with maturities of three months or less from the date of acquisition. Included in this category are all funds held in the Washington State Treasurer's Local Government Investment Pool (LGIP) and a local savings account.

The LGIP is comparable to an SEC regulated Rule 2a-7 money market fund in which funds are limited to high quality obligations with limited maximum and average maturities, the effect of which is to minimize both market and credit risk.

Under the City's investment policy, excess cash balances are invested. The City is authorized by State law to purchase certificates of deposit issued by Washington State depositories that participate in a state insurance pool managed by the Washington Public Deposit Protection Commission; investment deposits in a qualified public depository located in the State of Washington; U.S. Treasury and Agency securities; banker's acceptances trading in the secondary market; Washington State Treasurers Local Government Investment Pool; repurchase agreements with dealers that use authorized securities as collateral; and issues from other highly rated local governments in Washington. As further discussed in Note 4, the City reports investments at net book value.

Receivables

Taxes receivable consists of property and other taxes including related interest and penalties (see Note 4). Customer accounts receivable consists of amounts due from private individuals or organizations for goods and services incurred in the normal course of conducting business. Customer accounts receivable are reported net of estimated uncollectible amounts in proprietary funds. Special assessments are recorded when levied. Special assessments receivable consists of current and delinquent assessments. Accrued interest receivable consists of amounts earned on investments, notes, and contracts as of year-end. Notes and contracts receivable consists of amounts owed on open account from private individuals or organizations for goods and services rendered. The major component of the notes receivable category is in the Neighborhood Development fund and represents a revolving home ownership assistance program.

Amounts Due To and From Other Funds; Interfund Loans and Advances Receivable

These accounts include all interfund receivables and payables. A separate schedule of interfund loans receivable and payable is furnished in Note 4.

Amounts Due To and From Other Governments

These accounts include amounts due to or from other governments for grants, entitlements, temporary loans, taxes and charges for services, except amounts billed for utility usage which is included in customer receivables.

Inventories

Inventories in the General Fund, Enterprise Funds and Internal Service Funds are valued at cost using the weighted average method and consist of expendable supplies and vehicle repair parts. The cost of such inventories is recorded as expenditures/expenses when consumed rather than when purchased.

Restricted Assets and Liabilities

These accounts contain resources for debt service reserve requirements and debt redemption in the enterprise funds.

Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (i.e., roads, bridges, sidewalks and similar items) are reported in the applicable governmental or business-type columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 and an estimated useful life of two years or more. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

Infrastructure assets are long lived assets that normally are stationary in nature and can be preserved for a significantly greater number of years than most capital assets. Examples of infrastructure include roads, bridges, and lighting systems.

When capital assets are purchased, they are capitalized and depreciated in the government-wide financial statements and the proprietary fund statements. Capital assets are recorded as expenditures of the current period in the governmental fund financial statements.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of the capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant, and equipment of the City are depreciated using the straight line method over the following estimated useful lives:

Buildings	25 - 40 Years
Improvements other than buildings	7 - 50 Years
Utility plant	33 - 50 Years
Equipment	2 - 25 Years
Intangibles (organization costs and goodwill)	75 - 100 Years
Infrastructure	15 - 50 Years

Deferred Outflow of Resources

Deferred outflow of resources is the consumption of net position that is applicable to a future reporting period. A deferred outflow of resources involved no consumption of resources that results in either a net decrease in assets or a net increase in liabilities. It also represents access to present service capability that is under the government's controls. Other than outflows related to pensions (discussed in the next paragraph), the City of Yakima has only one other item that qualifies in this category, which is the deferred amount on refunding reported in the government-wide Statement of Net Position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

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.

Current Liabilities

Liabilities include primarily salaries and benefits payable and claims and judgments payable in the Internal Service Funds, current portion due on long-term debt and other liabilities due.

Noncurrent Liabilities

Noncurrent liabilities include long-term debt, compensated absences, cumulative unfinanced liability related to post-employment benefits and pension liabilities as prescribed by GASB 68 and 73.

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

Compensated Absences – Contracts with employees call for the accumulation of vacation and sick leave. At termination of employment, employees may receive cash payment for all accumulated vacation up to a certain number of hours and a percentage of sick leave, depending on employee group. The payment is based on current wage at termination.

The amounts of unpaid vacation and sick leave accumulated by City employees are accrued as expenses when incurred in proprietary funds in the government wide Statement of Activities, which use the accrual basis of accounting. In the governmental funds, only the amounts that normally would be liquidated with expendable available financial resources are accrued as current year expenditures. The City uses the last-in, first-out method of recognizing the hours used of compensated absences. Employees are charged for the last day of vacation or sick leave earned when the leave is used. Thus, unless it is anticipated that compensated absences will be used in excess of a normal year's accumulation, no additional expenditures are accrued. Therefore, the entire unpaid liability for the governmental funds is a reconciling item between the fund and government-wide presentations.

Deferred Inflow of Resources

Deferred inflow of resources is the acquisition of net position that is applicable to a future reporting period. A deferred inflow of resources involved no acquisition of resources resulting in either a net increase in assets or a net decrease in liabilities. It represents a present obligation to sacrifice resources that the government has little or no discretion to avoid. The City has only one type of item, deferred inflows related to pension, that qualifies for reporting in this category, which is reported in the governmental activities on the Statement of Net Position. The governmental funds report unavailable revenues from two sources, taxes receivable and notes receivable. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

Net Positions and Fund Balances

Net position is segregated into three categories on the government-wide statement of net position: 1) net investment in capital assets; 2) restricted; and 3) unrestricted. The flow assumption of the city is to use restricted assets before unrestricted assets when permitted by the resolution. Restricted assets are usually set aside in a separate fund, specifically used for the purpose of debt service or capital replacement.

The City’s fund balances are classified in accordance with Governmental Accounting Standards Board Statement Number 54 (GASB 54), Fund Balance Reporting and Governmental Fund Type Definitions, which require the City to classify its fund balances based on spending constraints imposed on the use of resources.

Nonspendable – Represents balances set aside to indicate items that do not represent available, spendable resources even though they are a component of assets. Fund balances are required to be maintained intact and include permanent funds and assets not expected to be converted to cash, such as inventories, and notes receivable.

Restricted – Are funds that have external restrictions imposed by creditors, grantors, contributors, laws, regulations, or enabling legislation which require the resources to be used only for a specific purpose.

Committed – These funds have constraints imposed by formal action (resolution or ordinance) of the City Council which may be altered only by a similar formal action of the City Council.

Assigned – Funds in this category are amounts constrained by the City to be used for a specific purpose, but are neither restricted nor committed and may be changed.

Unassigned – This represents the residual amounts that have not been restricted, committed, or assigned.

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

EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUNDS BALANCE SHEET AND THE GOVERNMENT-WIDE STATEMENT OF NET POSITION

The governmental fund balance sheet includes reconciliation between *fund balance – total government funds* and *net position – governmental activities* as reported in the government-wide statement of net position. One element of that reconciliation explains that “capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.” These details of this difference are as follows:

Land	\$ 17,884,343
Construction in progress	12,190,544
Buildings	57,571,868
Less: Accumulated depreciation - buildings	(26,453,072)
Machinery, equipment and vehicles	26,065,334
Less: Accumulated depreciation - machinery, equipment and vehicles	(17,278,588)
Infrastructure	297,049,073
Less: Accumulated depreciation - infrastructure	(192,209,983)
Other improvements	18,543,979
Less: Accumulated depreciation - other improvements	(11,485,475)
Net adjustment to increase total fund balances - total government funds to arrive at net position - governmental activities	\$ 181,878,023

Another element of that reconciliation explains “long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.” The details of this difference are as follows:

Bonds payable	\$ (29,472,475)
Add: Issuance premium (to be amortized over the life of the debt)	(1,337,807)
Intergovernmental loans	(5,719,371)
Lease purchase agreements	(4,254,649)
Compensated absences	(8,482,612)
Subtotal	<u>(49,266,914)</u>
Accrued interest payable	(193,310)
Net adjustment to reduce total fund balances - total government funds to arrive at net position - governmental activities	<u>\$ (49,460,224)</u>

The effect of long-term pension assets, liabilities and deferred inflows and outflows of resources as well as liabilities for Other Postemployment Benefits do not impact current economic resources and are therefore not reported in the funds. Details of this difference are as follows:

Pension asset	\$ 14,249,938
Net pension liability	(18,721,492)
Deferred outflow change in proportionate share	2,911,408
Deferred inflow change in proportionate share	(5,177,947)
Other postemployment benefit obligation	(25,154,369)
Net adjustment to reduce total fund balances - total government funds to arrive at net position - governmental activities	<u>\$ (31,892,462)</u>

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

The governmental fund statement of revenues, expenditures, and changes in fund balances includes reconciliation between net changes in fund balances – total governmental funds and changes in net position of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation explains that “governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.” This is the amount by which depreciation expense exceeded capital outlays in the current period. The details of this difference are as follows:

Capital outlay	\$ 5,913,424
Depreciation expense	(12,462,138)
Net adjustment to decrease net changes in fund balances - total government funds to arrive at changes in net position of governmental activities	<u>\$ (6,548,714)</u>

Another element of that reconciliation states that “in the statement of activities, only the gain on the sale of fund assets is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net position differs from the change in fund balance by the cost of the fund assets. This also includes donations of capital assets and infrastructure obtained by annexation.” The details of this difference are as follows:

In the statement of activities, only loss on the sale of capital assets is reported. However, in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net position differs from the change in the fund balance by the cost of the capital assets sold.	\$ (96,706)
Donations of capital assets increase net position in the statement of activities, but do not appear in the governmental funds because they are not financial resources.	787,793
Net adjustment to increase total government funds to arrive at changes in net position of governmental activities	<u>\$ 691,087</u>

Another element of that reconciliation states that “the issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statements of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items”. The details of this difference are as follows:

Debt issued	
Issuance of general obligation bonds	\$ (2,400,000)
Intergovernmental loan proceeds	(61,580)
Principal repayments	
General obligation debt	3,429,756
Intergovernmental loans	865,165
Lease purchase agreements	1,181,340
Interest accrued	175,760
Net adjustment to increase net changes in fund balances - total government funds to arrive at changes in net position of governmental activities	<u>\$ 3,190,441</u>

NOTE 3 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

BUDGETS AND BUDGETARY ACCOUNTING

Scope of Budget

The City Council annually approves the City’s operating budget. The operating budget is designed to allocate annually available resources among the City’s services and programs and to provide for associated financing decisions.

Annual appropriated budgets are adopted on the modified accrual basis of accounting. For governmental funds, there are no differences between budgetary basis and generally accepted accounting principles. Budgetary accounts are integrated in fund ledgers for all budgeted funds, but the financial statements include budgetary comparisons for the General Fund and for the Neighborhood Development Fund, which is considered a Special Revenue fund. Budgets for special revenue funds are required to be prepared, but not required to be reported individually in this report. Budgets for debt service and capital projects are adopted at the level of the individual debt issue or project and for fiscal periods that correspond to the lines of debt issues or projects. Budgets for proprietary funds, although not legally required, are prepared for operational oversight. Budgetary comparisons for all funds not presented in this report are available at www.yakimawa.gov/finance.

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

Appropriations for general and special revenue funds lapse at year end.

Procedures for Adopting the Original Budget

The City's budget procedures are mandated by Washington State Law. The steps in the budget process are as follows:

- Prior to November 15, the City Manager submits a proposed budget to the City Council. This budget is based on priorities established by the Council and estimates provided by City departments during the preceding months and balanced with revenue estimates.
- The Council conducts two public hearings on the proposed budget in November/December to obtain taxpayer comments.
- During December, the budget is legally enacted through passage of an ordinance.

Amending the Budget

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

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

The budget amounts shown in the financial statement represent the original adopted budget and all supplemental appropriations. City-wide, supplemental appropriations totaled \$8.3 million. The principal amendments were adjustments to Community Development/ONDS in the amount of \$2.7 million due to programmatic nature of the budget and differences in the reporting time frame for Federal programs, nonlapsing appropriations of various construction projects in the amount of \$1.2 million and year-end insurance adjustment in the amount of \$1.3 million.

General Fund spent less than its \$62.2 million final budget by \$389,506 due to strict adherence to the budget.

Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in all funds. Encumbrances are reported as reservations of fund balances since they do not constitute expenditures or liabilities. The City reappropriates outstanding encumbrances in the subsequent year as a budget amendment to the original budget.

FUND EQUITY

Nonspendable Fund Balance in Permanent Funds

The fund balance of \$667,296 in the Cemetery Trust Fund represents a portion of the amounts paid for cemetery plots. Provisions of these sales require \$120 of the sales price be held in trust and that the income on the investment of these amounts be used to maintain the plots.

Fiduciary Fund Net Position

The Firemen's Relief and Pension Fund has Net Position held in Trust for Pension Benefits and other purposes of \$1,359,167 which represents the net accumulated contributions made by the government through property taxes plus interest earnings and state fire insurance premium tax proceeds. As a requirement of GASB 73, which was implemented in 2016, this fund is now being reported as a part of the General Fund balance. It will continue to be treated as a separate fund for budgetary purposes.

Deficit Fund Balance

- The Refuse fund reports a deficit fund balance of (\$295,459). A rate increase was implemented in 2017 that now supports the costs of ongoing services, and will build up a sufficient reserve for future equipment replacements and other emergencies. This fund is expected to have a positive fund balance at the end of 2018.

- The Fire Capital fund has a deficit fund balance due to the acquisition of fire apparatus originally budgeted in 2015 with final delivery and payment in 2017 using interfund financing to provide cash resources to complete the purchase agreements. External financing will occur in 2018 to pay off the interfund loan to the General Fund and restore the Fire Capital Fund balance.

NOTE 4 – DETAILED NOTES ON ALL ACTIVITIES AND FUNDS

DEPOSITS AND INVESTMENTS

Deposits

The City of Yakima maintains deposit relationships with several Washington State commercial banks and savings and loan institutions that are classified as Public Depositories (see below).

The Public Deposit Protection Commission of the State of Washington (PDPC) covers all deposits not insured by the Federal Depository Insurance Corporation (FDIC). The PDPC is a statutory authority established under RCW 39.58. It constitutes a multiple financial institution collateral pool that insures public deposits. In such a pool, a group of financial institutions holding public funds pledge collateral to a common pool. The PDPC provides protection by maintaining strict standards as to the amount of public deposits financial institutions can accept, and by monitoring the financial condition of all public depositories and optimizing collateralization requirements.

The City of Yakima had the following cash on hand and deposit balances on December 31, 2017:

Banks and savings and loan institutions	\$ 12,187,719
Cash with fiscal agent	2,696,387
Petty cash and other imprest funds	14,527
Local Government Investment Pool (LGIP)	7,194,731
Subtotal	<u>22,093,364</u>
Agency fund	444,809
Total	<u><u>\$ 22,538,173</u></u>

Custodial Credit Risk: Deposits – The custodial credit risk for deposits is the risk that, in the event of a depository financial institution failure, the City’s deposits with banks and savings and loan associations may not be recovered. Because of the PDPC, the City’s deposits are not subject to this risk.

The City of Yakima is a participant in the Local Government Investment Pool as authorized by Chapter 294, Laws of 1986, and is managed and operated by the Washington State Treasurer. The State Finance committee is the administrator of the statute that created the pool and adopts rules. The State Treasurer is responsible for establishing the investment policy for the pool and reviews the policy annually and proposed changes are reviewed by LGIP advisory committee.

Investments in the LGIP, a qualified external investment pool, are reported at amortized cost which approximates fair value. The LGIP is an unrated external investment pool. The Pool portfolio is invested in a manner that meets the maturity, quality, diversification and liquidity requirements set forth by the GASB 79 for external investment pools that elect to measure, for financial reporting purposes, investments at amortized cost. The LGIP does not have any legally binding guarantees of share values. The LGIP does not impose liquidity fees or redemption gates on participant withdrawals.

The LGIP is comparable to a Rule 2a-7 money market fund recognized by the Securities and Exchange Commission (SEC). Rule 2a-7 funds are limited to high quality obligations with limited maximum and average maturities, the effect of which is to minimize both market and credit risk.

Foreign Currency Risk: Deposits – Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The City of Yakima does not participate in making deposits or investments that are exposed to this type of risk.

Investments

Cash and investments are managed under the guidance of the City’s Investment Policy (Resolution R2011-134). The policy is based on the Model Investment Policy prepared by the Association of Public Treasurers of the United States and Canada and applies to all financial assets of the City of Yakima (excluding the Firemen’s Relief and Pension Fund).

As of December 31, 2017, the City of Yakima had the following investments:

INVESTMENT PORTFOLIO

Investment Types	Carrying Value	Fair Value	Weighted	Weighted	Rating
			Average	Average	
			Maturity to	Expected	
			Expected	Maturity	
			Call (Days)	(Days)	
Federal agency securities	\$ 52,037,824	\$ 51,453,118	686	686	n/a
Certificates of deposit - PDPC	280,917	280,917	600	600	n/a
Total portfolio	<u>\$ 52,318,741</u>	<u>\$ 51,734,035</u>			

Carrying Value

Investments are reported at Net Book Value on the Financial Statements.

Investments are held until maturity unless called by the issuer prior to the maturity date. Premiums or Discounts realized at purchase are amortized over the life of the investment such that Net Book Value is equal to the amount realized at maturity.

Fair value is a volatile number that reflects the market price on a given date. Swings in fair value create arbitrary gains and losses which are never realized due to the City’s policy of holding investments until maturity.

Interest Rate Risk

In accordance with its adopted investment policy, the City manages its exposure to declines in fair value due to rising interest rates by limiting the weighted average maturity of its cash and security portfolio as a whole. Additionally, the City does not use derivatives, pass through obligations or other extremely interest rate sensitive instruments in its portfolio. Weighted average maturity on callable securities is calculated using both the expected call date and the final maturity date.

Credit Risk

State law, under RCW sections 35.39 and 39.59, limits investments that a Washington class 1 City may hold to: (1) Direct and Indirect obligations of the US Government, (2) high quality Municipal Bonds of Washington State or Cities and Towns within the State, (3) high quality General Obligation bonds of another State or City, by Washington Administrative Code permission, not in the RCW’s, (4) Bankers Acceptances and high quality Commercial Paper as long as they hold one of the 2 highest Credit ratings issued by at least two nationally recognized rating agencies, and the (4) State Treasurer’s LGIP. The LGIP is a 2a7 like pool, and investments in the pool are reported at the share price of 100% of dollars invested. The City’s own adopted Investment Policy adheres to the RCW’s and also allows for investment in high quality Commercial Paper, Bankers Acceptances and the LGIP.

Custodial Credit Risk

The City’s investment Policy does not include Repurchase, Reverse – Repurchase agreements or securities lending as allowable investment activity; therefore no custodial credit risk exists. All investments are held in the City’s name by a third party custodian through a Trust Agreement, with the exception of the LGIP and LID Notes.

PROPERTY TAXES

The County Treasurer acts as an agent to collect property taxes levied within the county for all taxing authorities. Collections are distributed after the end of each month, on the tenth 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 is established for next year’s levy at 100% of market value.
October 31	Second installment is due.

During the year, property tax revenues are recognized when cash is collected. At year-end, property tax revenues are recognized for collections in the hands of the County Treasurer at December 31st. No allowance for uncollectible taxes is established because delinquent taxes are considered fully collectible. Delinquent taxes are reported as unearned in the governmental funds and as part of the net position in the government wide funds.

The City is permitted by law to levy up to \$3.60 per \$1,000 of assessed valuation for general government services, less a maximum levy of \$.50/\$1,000 for the Library District, beginning in 2007. This amount may be reduced for either of the following reasons:

- The Washington State Constitution limits total regular property tax levies to one-percent of assessed valuation or \$10 per \$1,000 of value. If the tax levies of all districts exceed this amount, each is proportionately reduced until the total is at or below the one percent limit.
- Washington State law, RCW 84.55.010, limits the total dollar amount of regular property taxes that may be levied annually to 101% of the highest levy in the three previous years (excluding new construction, annexations and state assessed property).

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

For 2017, the City’s regular tax levy was \$3.0830 per \$1,000 on a total assessed valuation of \$6.0 billion, for a total regular levy of \$18,367,991. Included in the City’s regular levy is an authorization to levy for the Firemen’s Relief and Pension Fund. This levy is subject to the same limitations as the levy for general government services. The Firemen’s Relief and Pension portion of the regular tax levy for 2017 was \$.2250 per \$1,000, or \$1,340,511.

RECEIVABLES

Receivables as of year-end for the City’s individual major funds, nonmajor, internal service and agency funds in the aggregate are included in the statements.

Accounts receivable balances of the Enterprise funds are reported net of allowances for uncollectible accounts. Historically, write-offs in the utility funds have been about 1% of billed charges. Estimated uncollectible balances are as follows:

ALLOWANCE FOR UNCOLLECTIBLE ACCOUNTS RECEIVABLE – ENTERPRISE FUNDS

Refuse	\$	262,859
Wastewater		652,736
Water		331,432
Irrigation		94,447
Irrigation Capital		48,452
Total	\$	<u><u>1,389,926</u></u>

INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Interfund Receivables and Payables

Under the City's Interfund Loan program established in Chapter 3.123 of the City of Yakima Municipal code, loans between funds are authorized in order to fund short term working capital requirements of funds that may be in a negative cash position. Generally, such needs are due to timing differences between a fund's regular receipts of revenue and ordinary operating expenditures or expenses. Such loans that extend beyond one calendar quarter are subject to interest at published rates.

Interfund balances are eliminated on the government-wide financial statement. Interfund balances were as follows at year end:

INTERFUND BALANCES

Receivable Fund	Payable Fund	Amount
General Fund	Fire Capital	\$ 1,100,000
Equipment Rental	Public Safety Dispatch	450,000
REET 2	Yakima Revenue Dev Area	500,000
Total		<u>\$ 2,050,000</u>

Interfund Transfers

Interfund transfers represent subsidies and contributions provided to other funds with no corresponding debt or promise to repay. General Fund transfers are primarily used to: 1) allocate the portion of utility taxes that are designated to support Parks and Recreation and Law and Justice Capital programs; and 2) support the Public Safety dispatch operation with a portion of the telephone tax. Other transfers generally represent debt service and capital project funding.

The Equipment Rental Fund operates as an Internal Service Fund to support City motorized vehicle operations and as such "owns" most City vehicles other than Police or Fire vehicles. The fund administers a Vehicle Replacement program whereby participating funds make periodic deposits to the Vehicle Replacement Reserve for future purchases. These deposits are treated as transfers from the participating fund to Equipment Rental's Reserve. The Equipment Rental Fund also operates a maintenance and repair shop to service City vehicles (excluding Fire vehicles which are maintained by the Fire Department and Police vehicles which are serviced by an external vendor). By definition an Internal Service fund should not build an excessive fund balance. Their services should be rendered at approximate cost.

The following chart depicts interfund transfer activity during 2017:

INTERFUND TRANSFERS

Transfer out	Transfer In		Total
	Other Gen Gov't	Internal Service	
General Fund	\$ 4,189,850	\$ 18,980	\$ 4,208,830
Other Gen Gov't	3,324,968	427,565	3,752,533
Wastewater	—	198,481	198,481
Water	—	143,400	143,400
Irrigation	—	30,000	30,000
Airport	—	10,000	10,000
Other Enterprise	—	803,000	803,000
Internal Service	—	26,866	26,866
Total	<u>\$ 7,514,818</u>	<u>\$ 1,658,292</u>	<u>\$ 9,173,110</u>

CAPITAL ASSETS

CAPITAL ASSET ACTIVITY

	Balance				Balance
	1/1/2017	Additions	Adjustments	Deletions	12/31/2017
Governmental activities					
Capital assets - not being depreciated					
Land	\$ 16,983,321	\$ 901,022	\$ —	\$ —	\$ 17,884,343
Construction in progress	14,419,370	3,521,196	(5,656,545)	(93,477)	12,190,544
Total capital assets not being depreciated	31,402,691	4,422,218	(5,656,545)	(93,477)	30,074,887
Capital assets being depreciated					
Buildings	57,577,764	—	—	(5,896)	57,571,868
Other improvements	17,707,130	562,966	274,722	(839)	18,543,979
Machinery, equipment and vehicles	23,956,569	583,037	1,548,829	(23,101)	26,065,334
Infrastructure	292,083,082	1,132,996	3,832,994	—	297,049,072
Total capital assets being depreciated	391,324,545	2,278,999	5,656,545	(29,836)	399,230,253
Less accumulated depreciation					
Buildings	(25,172,257)	(1,286,711)	—	5,896	(26,453,072)
Other improvements	(10,479,367)	(1,006,108)	—	—	(11,485,475)
Machinery, equipment and vehicles	(15,313,130)	(1,986,170)	—	20,711	(17,278,589)
Infrastructure	(184,026,832)	(8,183,150)	—	—	(192,209,982)
Total accumulated depreciation	(234,991,586)	(12,462,139)	—	26,607	(247,427,118)
Total capital assets being depreciated - net	156,332,959	(10,183,140)	5,656,545	(3,229)	151,803,135
Governmental activities capital assets - net	187,735,650	(5,760,922)	—	(96,706)	181,878,022
Internal service funds - gov't activities					
Capital assets being depreciated					
Buildings	37,397	—	—	—	37,397
Other improvements	632,006	17,053	—	—	649,059
Machinery, equipment and vehicles	23,984,572	1,791,860	(168,349)	(576,058)	25,032,025
Total capital assets being depreciated	24,653,975	1,808,913	(168,349)	(576,058)	25,718,481
Less accumulated depreciation					
Buildings	(30,602)	(609)	—	—	(31,211)
Other improvements	(153,434)	(34,977)	—	—	(188,411)
Machinery, equipment and vehicles	(14,608,143)	(1,312,742)	143,097	490,643	(15,287,145)
Total accumulated depreciation	(14,792,179)	(1,348,328)	143,097	490,643	(15,506,767)
Total internal service capital assets being depr - net	9,861,796	460,585	(25,252)	(85,415)	10,211,714
Total governmental activities	\$ 197,597,446	\$ (5,300,337)	\$ (25,252)	\$ (182,121)	\$ 192,089,736

CAPITAL ASSET ACTIVITY

	Balance				Balance
	1/1/2017	Additions	Adjustments	Deletions	12/31/2017
Business-type activities					
Capital assets - not being depreciated					
Land	\$ 5,523,405	\$ —	\$ —	\$ —	\$ 5,523,405
Construction in progress	18,294,568	2,632,415	676,964	—	21,603,947
Total capital assets not being depreciated	<u>23,817,973</u>	<u>2,632,415</u>	<u>676,964</u>	<u>—</u>	<u>27,127,352</u>
Capital assets being depreciated					
Buildings	88,362,671	—	—	—	88,362,671
Other improvements	174,428,611	1,419,028	(676,964)	—	175,170,675
Machinery, equipment and vehicles	38,455,338	2,222,551	168,349	(1,462,493)	39,383,745
Intangibles	2,190,139	—	—	—	2,190,139
Total capital assets - depreciated	<u>303,436,759</u>	<u>3,641,579</u>	<u>(508,615)</u>	<u>(1,462,493)</u>	<u>305,107,230</u>
Less accumulated depreciation					
Buildings	(60,461,869)	(1,747,055)	—	—	(62,208,924)
Other improvements	(73,365,688)	(4,630,289)	—	—	(77,995,977)
Machinery, equipment and vehicles	(21,739,684)	(2,128,452)	(143,097)	1,357,322	(22,653,911)
Intangibles	(1,106,509)	(101,471)	—	—	(1,207,980)
Total accumulated depreciation	<u>(156,673,750)</u>	<u>(8,607,267)</u>	<u>(143,097)</u>	<u>1,357,322</u>	<u>(164,066,792)</u>
Total capital assets being depreciated - net	146,763,009	(4,965,688)	(651,712)	(105,171)	141,040,438
Total capital assets - business activities	<u>\$ 170,580,982</u>	<u>\$ (2,333,273)</u>	<u>\$ 25,252</u>	<u>\$ (105,171)</u>	<u>\$ 168,167,790</u>

NOTE - The adjustment column represents construction works in progress that were completed and either classified into the appropriate capital asset category, or expensed. Assets transferred between fund categories are also included as an adjustment. Depreciation expense was charged to functions/programs as follows:

DEPRECIATION EXPENSE

Function/Program	Amount
General government	\$ 264,530
Public safety	1,615,125
Transportation	8,459,846
Economic environment	574,849
Cultural and recreational	1,547,788
Capital Assets held by the City's internal service funds are charged to the various functions based on their usage of the assets	1,205,231
Total depreciation - governmental activities	<u>\$ 13,667,369</u>
Transit	\$ 1,133,973
Wastewater	4,579,029
Water	1,529,252
Irrigation	445,859
Stormwater	84,680
Airport	977,571
Total depreciation - business-type activities	<u>\$ 8,750,364</u>

COMMITMENTS

Construction Commitments

The City had active construction projects as of December 31, 2017.

The Wastewater projects include the Rudkin Road Lift station, which is 90% complete. Upon completion, Wastewater will begin the Beech Street Lift Station. Wastewater project improvements are partially financed by State Public Works Trust funds rates and fees.

Alpha taxiway construction and installation of new security gates at the Airport continues to be in progress with completion planned for 2018. Airport projects are paid for with FAA grants and matching Passenger Facility Charges (PFC's)

Street projects include upgrades to existing streets and sidewalks in the City. Also, improvements to the primary access roads into the new SOZO Sports Complex are underway by reconstructing and widening Spring Creek Road and South 38th Avenue. The Adams/Washington sidewalk Improvement project has been awarded and will begin construction mid-year 2018. Design work continues on the East/West Corridor, which will provide a connection for north Yakima with Terrace Heights. Design work continues on the north/south access for the former Boise Cascade Saw Mill with construction scheduled for 2019. Street construction projects are financed by Federal and State loans, SIED grants/loans, REET, TBD and local funds.

The City is in discussion and will continue with Study Sessions with the YMCA to develop a plan for the aquatic center, incorporating a ground lease development agreement and an operating agreement between the City and the YMCA. The City's financial contribution is an estimated \$8.0 million, contingent of funding sources.

CURRENT CONSTRUCTION COMMITMENTS

Project	Contract Amount	Spent to Date	Remaining Commitment
Wastewater Treatment Plant and Mains	\$ 7,320,666	\$ 3,886,172	\$ 3,434,494
Water	1,050,521	872,816	177,705
Irrigation System Design / Rebuild	147,000	146,109	891
Airport	5,094,679	3,994,160	1,100,519
Street Construction	7,570,331	5,423,110	2,147,221
Parks	9,548,084	1,649,425	7,898,659
Total	<u>\$ 30,731,281</u>	<u>\$ 15,971,792</u>	<u>\$ 14,759,489</u>

NOTE 5 – PENSION PLANS

The following table represents the aggregate pension amounts for all plans subject to the requirements of the GASB Statements 68, *Accounting and Financial Reporting for Pensions* and GASB 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB 68, and Amendments to Certain Provisions of GASB 67 and 68*:

AGGREGATE PENSION AMOUNTS - ALL STATE SPONSORED PLANS

Pension liabilities	\$ 21,434,557
Pension assets	(14,249,938)
Deferred outflows of resources	4,187,988
Deferred inflows of resources	6,683,393
Pension expense/expenditures	1,643,266

STATE SPONSORED PENSION PLANS

Substantially all Yakima 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.

Contributions

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.

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 2017 were as follows:

PERS PLAN 1

<u>Actual Contribution Rates</u>	<u>Employer</u>	<u>Employee</u>
January - June 2017		
PERS Plan 1	6.23%	6.00%
PERS Plan 1 UAAL	4.77%	n/a
Administrative Fee	0.18%	n/a
Total	11.18%	6.00%

PERS PLAN 1

<u>Actual Contribution Rates</u>	<u>Employer</u>	<u>Employee</u>
July - December 2017		
PERS Plan 1	7.49%	6.00%
PERS Plan 1 UAAL	5.03%	n/a
Administrative Fee	0.18%	n/a
Total	12.70%	6.00%

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 2017 were as follows:

PERS PLAN 2/3

Actual Contribution Rates	Employer 2/3	Employee 2
January - June 2017		
PERS Plan 2/3	6.23%	6.12%
PERS Plan 1 UAAL	4.77%	n/a
Administrative Fee	0.18%	n/a
Total	11.18%	6.12%
July - December 2017		
PERS Plan 2/3	7.49%	7.38%
PERS Plan 1 UAAL	5.03%	n/a
Administrative Fee	0.18%	n/a
Total	12.70%	7.38%

The City of Yakima’s actual PERS plan contributions were \$1,489,894 to PERS Plan 1 and \$1,970,622 to PERS Plan 2/3 for the year ended December 31, 2017.

PUBLIC SAFETY EMPLOYEES’ RETIREMENT SYSTEM (PSERS)

PSERS Plan 2 was created by the 2004 Legislature and became effective July 1, 2006. To be eligible for membership, an employee must work on a full time basis and:

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

PSERS membership includes:

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

PSERS covered employers include:

- Certain State of Washington agencies (Department of Corrections, Department of Natural Resources, Gambling commission, Liquor Control Board, Parks and Recreation Commission, and Washington State Patrol),
- Washington State Counties,
- Washington State Cities (except for Seattle, Spokane, and Tacoma),
- Correctional entities formed by PSERS employers under the Interlocal Cooperation Act.

PSERS Plan 2 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the average final compensation (AFC) for each year of service. The AFC is based on the member's 60 consecutive highest creditable months of service. Benefits are actuarially reduced for each year that the member's age is less than 60 (with ten or more service credit years in PSERS), or less than 65 (with fewer than ten service credit years). There is no cap on years of service credit. Members are eligible for retirement at the age of 65 with five years of service; or at the age of 60 with at least ten years of PSERS service credit; or at age 53 with 20 years of service. Retirement before age 60 is considered an early retirement. PSERS members who retire prior to the age of 60 receive reduced benefits. If retirement is at age 53 or older with at least 20 years of service, a three percent per year reduction for each year between the age at retirement and age 60 applies. PSERS Plan 2 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. PSERS Plan 2 members are vested after completing five years of eligible service.

Contributions

The PSERS Plan 2 employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2. The Plan 2 employer rates include components to address the PERS Plan 1 unfunded actuarial accrued liability and administrative expense currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates. In addition to the regular change in contribution rates on July 1, 2017, PSERS contribution rates changed again September 1, 2017 due to HB 1709, which allows PERS members meeting specific criteria to transfer service credit into PSERS as long as they and their employer pay the difference between the PERS and PSERS contribution rates.

The PSERS Plan 2 required contribution rates (expressed as a percentage of current-year covered payroll) for 2017 were as follows:

PSERS PLAN 2

<u>Actual Contribution Rates</u>	<u>Employer</u>	<u>Employee</u>
January - June 2017		
PSERS Plan 2	6.59%	6.59%
PERS Plan 1 UAAL	4.77%	n/a
Administrative Fee	0.18%	n/a
Total	11.54%	6.59%
July - August 2017		
PSERS Plan 2	6.73%	6.73%
PERS Plan 1 UAAL	5.03%	n/a
Administrative Fee	0.18%	n/a
Total	11.94%	6.73%
September - December 2017		
PSERS Plan 2	6.74%	6.74%
PERS Plan 1 UAAL	5.03%	n/a
Administrative Fee	0.18%	n/a
Total	11.95%	6.74%

The City of Yakima's actual plan contributions were \$53,309 to PSERS Plan 2.

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

This plan 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 I had no required employer or employee contributions for fiscal year 2017. Employers paid only the administrative expense of 0.18 percent of covered payroll.

LEOFF Plan 2

This plan 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 2017 were as follows:

LEOFF PLAN 2

<u>Actual Contribution Rates</u>	<u>Employer</u>	<u>Employee</u>
January - June 2017		
State and local governments	5.05%	8.41%
Administrative Fee	0.18%	n/a
Total	<u>5.23%</u>	<u>8.41%</u>
July - December 2017		
State and local governments	5.25%	8.75%
Administrative Fee	0.18%	n/a
Total	<u>5.43%</u>	<u>8.75%</u>

The City of Yakima's actual contributions to the plan were \$1,206,292 for the year ended December 31, 2017.

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, 2017, the state contributed \$62,155,262 to LEOFF Plan 2. The amount recognized by the City as its proportionate share of this amount is (\$10,267,387).

ACTUARIAL ASSUMPTIONS

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2017 with a valuation date of June 30, 2016. 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* and the *2015 Economic Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2016 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2017. Plan liabilities were rolled forward from June 30, 2016, to June 30, 2017, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- Inflation - 3.0% 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 changes in methods and assumptions since the last valuation.

- For all plans except LEOFF Plan 1, how terminated and vested member benefits are valued was corrected.
- How the basic minimum COLA in PERS Plan 1 is valued for legal order payees was improved.
- For all plans, the average expected remaining service lives calculation was revised.

Discount Rate

The discount rate used to measure the total pension liability for all DRS plans was 7.5%.

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, PSERS 2, SERS 2/3, and TRS 2/3 employers, whose rates include a component for the PERS 1, and TRS 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. In selecting this assumption, the Office of the State Actuary (OSA) reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered capital market assumptions and simulated expected investment returns provided by the Washington State Investment Board (WSIB). The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns over various time horizons.

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, 2017, 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	% LT Expected Real Rate of Return
		Arithmetic
Fixed income	20%	1.70%
Tangible assets	5%	4.90%
Real estate	15%	5.80%
Global equity	37%	6.30%
Private Equity	23%	9.30%
	100%	

Sensitivity of Net Pension Liability

The table below presents the City of Yakima's proportionate share of the net pension liability for State sponsored plans only, calculated using the discount rate of 7.5 percent, as well as what the City 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.

	Current		
	1% Decrease (6.5%)	Discount Rate (7.5%)	1% Increase (8.5%)
PERS 1	\$ 13,851,601	\$ 11,370,630	\$ 9,221,578
PERS 2/3	27,000,172	10,021,946	(3,889,191)
PSERS 2	281,886	41,981	(146,119)
LEOFF 1	(2,954,118)	(3,982,551)	(4,865,740)
LEOFF 2	2,221,847	(10,267,387)	(20,443,093)

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, 2017, the City of Yakima reported a total pension asset of (\$14.2) million and a pension liability of \$21.4 million for its proportionate share of the net pension assets and liabilities as follows:

	<u>Asset</u>	<u>Liability</u>
PERS 1	\$ —	\$ 11,370,630
PERS 2/3	—	10,021,946
PSERS 2	—	41,981
LEOFF 1	(3,982,551)	—
LEOFF 2	(10,267,387)	—
Total	<u>\$ (14,249,938)</u>	<u>\$ 21,434,557</u>

The amount of the liability (asset) reported above for LEOFF Plans 1 and 2 reflects a reduction for State pension support provided to the City of Yakima. 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:

<u>Risk</u>	<u>LEOFF 1</u>	<u>LEOFF 2</u>
	<u>Asset</u>	<u>Asset</u>
Employer's proportionate share	\$ (3,982,551)	\$ (10,267,387)
State's proportionate share of the net pension asset associated with the employer	<u>(26,937,875)</u>	<u>(6,660,262)</u>
Total	<u>\$ (30,920,426)</u>	<u>\$ (16,927,649)</u>

At June 30, the City of Yakima's proportionate share of the collective net pension liabilities was as follows:

	<u>Proportionate</u>	<u>Proportionate</u>	<u>Change in</u>
	<u>Share 6/30/16</u>	<u>Share 6/30/17</u>	<u>Proportion</u>
PERS 1	0.2437%	0.2963%	0.0526%
PERS 2/3	0.2903%	0.2884%	(0.0019)%
PSERS 2	0.2172%	0.2143%	(0.0029)%
LEOFF 1	0.2642%	0.2625%	(0.0017)%
LEOFF 2	0.7434%	0.7399%	(0.0035)%

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 2017. Historical data was obtained from a 2011 study by the Office of the State Actuary (OSA). In fiscal year 2017, 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 2017, the state of Washington contributed 39.35 percent of LEOFF 2 employer contributions pursuant to RCW 41.26.725 and all other employers contributed the remaining 60.65 percent of employer contributions.

The collective net pension liability (asset) was measured as of June 30, 2017, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2016, with update procedures used to roll forward the total pension liability to the measurement date.

Pension Expense

For the year ended December 31, 2017, the City of Yakima's recognized pension expense as follows:

	Pension Expense
PERS 1	\$ 474,114
PERS 2/3	1,341,967
PSERS 2	58,436
LEOFF 1	(613,321)
LEOFF 2	382,070
Total	<u>\$ 1,643,266</u>

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2017, the City of Yakima's reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

DEFERRED OUTFLOWS/INFLOWS

Plan	Deferred Outflows of Resources	Deferred Inflows of Resources
PERS Plan 1		
Differences between expected and actual experience	\$ —	\$ 424,320
Contributions subsequent to the measurement date	827,264	—
Total PERS Plan 1	<u>\$ 827,264</u>	<u>\$ 424,320</u>
PERS Plan 2/3		
Differences between expected and actual experience	\$ 1,015,459	\$ 329,604
Net difference between projected and actual investment earnings on pension plan investments	—	2,671,610
Changes of assumptions	106,452	—
Changes in proportion and differences between contributions and proportionate share of contributions	39,403	153,850
Contributions subsequent to the measurement date	1,023,680	—
Total PERS Plan 2/3	<u>\$ 2,184,994</u>	<u>\$ 3,155,064</u>
PSERS Plan 2		
Differences between expected and actual experience	\$ 24,829	\$ 2,983
Net difference between projected and actual investment earnings on pension plan investments	—	29,444
Changes of assumptions	356	—
Changes in proportion and differences between contributions and proportionate share of contributions	—	3,029
Contributions subsequent to the measurement date	27,900	—
Total PSERS Plan 2	<u>\$ 53,085</u>	<u>\$ 35,456</u>

DEFERRED OUTFLOWS/INFLOWS

Plan	Deferred Outflows of Resources	Deferred Inflows of Resources
LEOFF 1		
Net difference between projected and actual investment earnings on pension plan investments	\$ —	\$ 370,072
Total LEOFF 1	<u>\$ —</u>	<u>\$ 370,072</u>
LEOFF 2		
Differences between expected and actual experience	\$ 451,271	\$ 389,357
Net difference between projected and actual investment earnings on pension plan investments	—	2,305,100
Changes of assumptions	12,364	—
Changes in proportion and differences between contributions and proportionate share of contributions	45,639	4,024
Contributions subsequent to the measurement date	613,371	—
Total LEOFF 2	<u>\$ 1,122,645</u>	<u>\$ 2,698,481</u>
Total	<u><u>\$ 4,187,988</u></u>	<u><u>\$ 6,683,393</u></u>

Deferred outflows of resources related to pensions resulting from the City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2018. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended	PERS 1		PERS 2/3		PSERS		LEOFF 1		LEOFF 2	
December 31										
2018	\$ (286,813)	\$ (1,085,684)	\$ (6,804)	\$ (232,251)	\$ (1,057,690)					
2019	90,551	246,243	4,764	62,638	241,097					
2020	(21,025)	(250,971)	935	(25,013)	(156,939)					
2021	(207,033)	(1,085,583)	(6,673)	(175,446)	(1,004,497)					
2022	—	79,237	(553)	—	(37,711)					
Thereafter	—	103,009	(1,940)	—	(173,468)					

VOLUNTTER FIREFIGHTERS' AND RESERVE OFFICERS' RELIEF AND PENSION FUND (VFFRPF)

VFFRPF is a cost-sharing, multiple-employer defined benefit plan administered by the State Board for Volunteer Fire Fighters and Reserve Officers. The Board is appointed by the Governor and is comprised of five members of fire departments covered by Chapter 41.24 RCW. Administration costs of the VFFRPF are funded through legislative appropriation. Approximately 450 local governments, consisting of fire departments, emergency medical service districts and law enforcement agencies, contribute to the plan. In addition, the state contributes 40 percent of the fire insurance premium tax. Retirement benefits are established in Chapter 41.24 RCW and may be amended only by the Legislature.

The VFFRPF plan does not issue a stand-alone financial report, but is included in the comprehensive annual financial report (CAFR) of the State of Washington. The State CAFR may be downloaded from the Office of Financial Management (OFM) website at www.ofm.wa.gov.

Membership in the VFFRPF includes volunteer firefighters, emergency medical technicians, and commissioned reserve law enforcement officers of participating employers. After 25 years of active membership, members having reached the age of 65 and who have paid their annual retirement fee for 25 years are entitled to receive a monthly benefit of \$50 plus \$10 per year of service, for a maximum monthly benefit of \$300. Reduced pensions are available for members under the age of 65 or with less than 25 years of service.

Members are vested after ten years of service. The VFFRPF members earn no interest on contributions and may elect to withdraw their contributions upon termination. Death and active duty disability benefits are provided at no cost to the member. Death benefits in the line of duty consist of a lump sum of \$214,000 and funeral and burial expenses of \$2,000. Members receiving disability benefits at the time of death shall be paid \$500.

Contributions

Contribution rates for emergency medical service districts (EMSD) and law enforcement agencies are set each year by the Board based on the actual cost of participation as determined by the Office of the State Actuary. All other contribution rates are set by the Legislature. Municipalities may opt to pay the member’s fee on their behalf.

The contribution rates for 2017 were:

VFFRPF		
Actual Contribution Rates	Firefighters	EMSD and Reserve Officers
Municipality fee	\$ 30	\$ 105
Member Fee	30	30

The City of Yakima’s actual contributions to the plan were \$1,215 for the year ended December 31, 2016.

In accordance with Chapter 41.24 RCW, the state contributes 40 percent of the fire insurance premium tax to the plan. For fiscal year 2017, the fire insurance premium tax contribution was \$6.6 million.

Actuarial Assumptions

The total pension asset for the VFFRPF was determined by an actuarial valuation by the Office of the State Actuary (OSA) as of June 30, 2016, and rolled forward to June 30, 2017, using the following actuarial assumptions, applied to all prior periods included in the measurement:

- Inflation: 2.75%
- Salary increases: N/A
- Investment rate of return: 7.0%

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 2016 valuation report.

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 their lifetime.

Discount Rate

The discount rate used to measure the total VFFRPF pension asset was 7 percent. To determine that rate, an asset sufficiency test was completed to test whether the pension plan’s fiduciary net position was sufficient to make all projected future benefit payments of current plan members. Consistent with current law, the completed asset sufficiency test included an assumed 7 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. Consistent with the long-term expected rate of return, a 7 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members, municipalities, and the state will be made at the current contribution rate. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members.

Long-Term Expected Rate of Return

The long-term expected rate of return on the VFFRPF pension plan investments of 7 percent was determined using a building-block method. In selecting this assumption, the Office of the State Actuary (OSA) reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered capital market assumptions and simulated expected investment returns provided by the Washington State Investment Board (WSIB). The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns over various time horizons.

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, 2017, 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	% LT Expected Real Rate of Return
		Arithmetic
Fixed income	20%	1.70%
Tangible assets	5%	4.90%
Real estate	15%	5.80%
Global equity	37%	6.30%
Private Equity	23%	9.30%
	100%	

Sensitivity of Net Pension Asset

The following presents the City of Yakima’s proportionate share of the VFFRPF net pension asset calculated using the discount rate of 7 percent, as well as what the City of Yakima’s proportionate share of the net pension asset would be if it were calculated using a discount rate that is 1-percentage point lower (6 percent) or 1-percentage point higher (8 percent) than the current rate.

	Current Discount		
	1% Decrease	Rate	1% Increase
	(6.0%)	(7.0%)	(8.0%)
VFFRPF	\$ (19,475)	\$ (52,004)	\$ (80,122)

Pension Plan Fiduciary Net Position

Detailed information about the VFFRPF plan’s fiduciary net position is available in the separately issued State of Washington CAFR.

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

At June 30, 2017, the City of Yakima reported an asset of \$52,004 for its proportionate share of the VFFRPF plan’s net pension asset. The City of Yakima’s proportion of the net pension asset was based on actual contributions to the plan relative to total contributions of all participating municipalities. At June 30, 2017, the City of Yakima’s proportion was 0.13%.

The VFFRPF collective net pension asset was measured as of June 30, 2017, and the actuarial valuation date on which the total pension liability is based was as of June 30, 2016, with update procedures used to roll forward the total pension liability to the measurement date.

For the year ended December 31, 2017, the City of Yakima recognized pension expense of \$1,215. Deferred outflows of resources and deferred inflows of resources are not material to the VFFRPF plan.

FIREMEN’S PENSION

AGGREGATE PENSION AMOUNTS - FIRE

Pension liabilities	\$ 6,635,284
Pension assets	—
Deferred outflows of resources	—
Deferred inflows of resources	—
Pension expense/expenditures	238,138

The City has a single employer, defined benefit pension plan for Firefighters employed prior to March 1, 1970, and governed by Washington State Law RCW 41.26. Under the terms of the governing law, the pension member is entitled to payment from the City’s pension plan for those benefits in excess of those calculated under the LEOFF plan.

The City’s Firemen’s Pension Fund is a closed group. There are 50 participants with a combined monthly pension of \$49,727 paid by the City. Cost of Living Adjustment (COLA) was 2.24% and Collective Bargaining Agreement (CBA) was 2.5%. No new members are permitted. Employees attaining the age of fifty who have completed 25 or more years of service are entitled to annual benefits of fifty-percent of their salary plus an additional two-percent for each year of service in excess of 25 years, up to a maximum of sixty-percent of salary. The pension plan also provides death and disability pension benefits plus sick benefits for eligible active and retired employees.

If the employee terminates his employment with the Fire Department and is not eligible for any other benefit under the Firemen’s Pension, the employee is entitled to the following:

- Return of accumulated contributions less any benefits paid.
- When a Firefighter would have had 25 years of service, 2% of salary for each year of service.

During the year ended December 31, 2017, there were no plan amendments.

Contributions

The Fire Pension is a department within the General Fund. The City engaged Milliman U.S.A., Consultant & Actuaries, to perform the pension’s actuarial study. They issued a valuation dated January 1, 2018.

Firefighters are no longer required to contribute to the Firemen’s Pension. The City is required to contribute the amount necessary to fund the Firemen’s Pension, using the aggregate projected benefit method. Under state law, partial funding of the Firemen’s Pension Fund is provided by:

- An annual tax levy of \$.2250 per \$1,000 of assessed valuation of all taxable property of the City in the amount of \$1,340,511 for fiscal year 2017.
- The Firemen’s Pension Fund also receives a proportionate share of the 25 percent of the tax on fire insurance premiums set aside by the state for all paid firemen in the state which totaled \$95,776 for fiscal year 2017.
- Additional funding is provided by investment interest earnings, which in fiscal 2017 totaled \$1,500.

Actuarial Assumptions

The City’s funding policy is to provide for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due.

Actuarial assumptions used to determine the total pension liability in the January 1, 2018, valuation were based on the results of an actuarial experience study covering the period from January 1, 2017 through December 31, 2017. Those assumptions, applied to all periods included in the measurement, are as follows.

- Inflation - 2.25%
- Salary increases, including inflation - 3.25%
- Mortality - RP-2000 Mortality Table (combined healthy) with generational projection using 100% of Projection Scale BB, with ages set back one year for males and forward one year for females (set forward two years for disabled members).
- Actuarial cost method - Entry age normal

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

	1% Decrease (2.5%)	Current Discount Rate (3.5%)	1% Increase (4.5%)
Total Pension Liability	\$ 7,202,242	\$ 6,635,284	\$ 6,142,649

Pension Expenses

For the year ended December 31, 2017, the pension expense is \$238,138.

Total Pension Liability

Due to the implementation of GASB 73, the City is now required to report the pension liability of this single employee non-trust pension plan. The City recognizes its total pension liability, rather than a net pension liability. In order for the City to recognize a net pension liability, assets must be accumulated in a trust that meets all of the following criteria:

- Contributions from the employer and any nonemployer contributing entities, and earnings thereon, must be irrevocable.
- Plan assets must be dedicated to providing pensions to Plan members in accordance with the benefit terms.
- Plan assets must be legally protected from the creditors of the employer, nonemployer contributing entities, the Plan administrator, and Plan members.

No assets are accumulated in a trust that meets all of the above criteria because the City's contributions are not irrevocable. Accordingly, the City's total pension liability is not reduced by any assets accumulated in a trust that meets the criteria and the City must report its total pension liability.

The City's total pension liability was determined by an actuarial valuation as of the measurement date of December 31, 2017. Changes in the City's total pension liability were as follows:

Firemens' Pension	Total Pension Liability
Balances at 12/31/2016	\$ 6,902,294
Changes for the year:	
Interest	247,672
Differences between expected and actual experience	(43,347)
Changes of assumptions	129,589
Benefit payments	(600,924)
Net changes	<u>(267,010)</u>
Balance at 12/31/2017	<u>\$ 6,635,284</u>

The liability has decreased since our last valuation. The fact that excess benefits increased less than anticipated since the prior valuation led to a decrease in liability. This decrease was partially offset by the demographic experience of the Plan over the past two years.

The Plan remains sensitive to demographic experience that deviates from expectations due to the small size of the Plan membership. The Plan also remains sensitive to deviations in the excess benefit amounts from expectations.

At December 31, 2017, the City of Yakima reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Firemens' Pension	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ —	\$ —
Changes of assumptions	—	—
Payments subsequent to the measurement date	—	—
Total	<u>\$ —</u>	<u>\$ —</u>

Deferred outflows of resources related to pensions resulting from the City of Yakima's payments subsequent to the measurement date will be recognized as a reduction of the total pension liability in the year ended December 31, 2017. There are no deferred outflows as of December 31, 2017. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31	
2018	\$ —
2019	—
2020	—
2021	—
2022	—
Thereafter	—

POLICE PENSION

AGGREGATE PENSION AMOUNTS - POLICE

Pension liabilities	\$	4,664,239
Pension assets		—
Deferred outflows of resources		—
Deferred inflows of resources		—
Pension expense/expenditures		(317,067)

The City has a single employer, defined benefit pension plan for Police Officers employed prior to March 1, 1970, and governed by Washington State Law RCW 41.20 and 41.26. Under the governing law, the pension member is entitled to payment from the City's pension plan for those benefits in excess of those calculated under the LEOFF plan. The City also covers four members who were ineligible under the State Law Enforcement Officers and Firefighters (LEOFF) Program.

The City's Police Pension Fund is a closed group. There are 34 participants with a combined monthly pension of \$31,860 paid by the City. Cost of Living Adjustment (COLA) was 2.24% and Collective Bargaining Agreement (CBA) was 2.5%. No new members are permitted. Employees who have completed 25 years or more of service are entitled to annual benefits of 50% of their salary plus an additional 2% for each year of service in excess of 25 years – up to a maximum of 60% of salary. The plan provides death and disability pension benefits plus sick benefits for eligible active and retired employees.

There are no longer any active employees who are eligible for this benefit.

During the year ended December 31, 2017, there were no plan amendments.

Contributions

The Police Pension is a department within the General Fund. The City engaged Milliman U.S.A., Consultant & Actuaries, to perform the pension's actuarial study. They issued a valuation dated January 1, 2018. The valuation provided actuarially determined rates to accumulate sufficient assets to pay benefits when due rather than the current pay as you go basis.

Actuarial Assumptions

The City's funding policy is to provide for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due.

The total pension liability was determined by an actuarial valuation as of January 1, 2018 the valuation date, calculated based on the discount rate and actuarial assumptions below.

- Inflation - 2.25%
- Salary increases, including inflation - 3.25%
- Mortality - RP-2000 Mortality Table (combined healthy) with generational projection using 100% of Projection Scale BB, with ages set back one year for males and forward one year for females (set forward two years for disabled members).
- Actuarial cost method - Entry age normal

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

	1% Decrease (2.5)%	Current Discount Rate (3.5%)	1% Increase (4.5)%
Total Pension Liability	\$ 5,068,411	\$ 4,664,239	\$ 4,311,987

Pension Expenses

For the year ended December 31, 2017, the pension expense is negative \$317,067.

Total Pension Liability

Due to the implementation of GASB 73, the City is now required to report the pension liability of this single employee non-trust pension plan. The City recognizes its total pension liability, rather than a net pension liability. In order for the City to recognize a net pension liability, assets must be accumulated in a trust that meets all of the following criteria:

- Contributions from the employer and any nonemployer contributing entities, and earnings thereon, must be irrevocable.
- Plan assets must be dedicated to providing pensions to Plan members in accordance with the benefit terms.
- Plan assets must be legally protected from the creditors of the employer, nonemployer contributing entities, the Plan administrator, and Plan members.

No assets are accumulated in a trust that meets all of the above criteria because the City's contributions are not irrevocable. Accordingly, the City's total pension liability is not reduced by any assets accumulated in a trust that meets the criteria and the City must report its total pension liability.

The City's total pension liability was determined by an actuarial valuation as of the measurement date of December 31, 2017. Changes in the City's total pension liability were as follows:

<u>Police Pension</u>	<u>Total Pension Liability</u>
Balances at 12/31/2016	\$ 5,381,844
Changes for the year:	
Interest	194,378
Differences between expected and actual experience	(604,017)
Changes of assumptions	92,572
Benefit payments	(400,538)
Net changes	<u>(717,605)</u>
Balance at 12/31/2017	<u>\$ 4,664,239</u>

The liability has decreased since our last valuation. The fact that excess benefits increased less than anticipated since the prior valuation led to a decrease in liability. Further decreasing liability was the demographic experience of the Plan over the past two years.

The Plan remains sensitive to demographic experience that deviates from expectations due to the small size of the Plan membership. The Plan also remains sensitive to deviations in the excess benefit amounts from expectations.

At December 31, 2017, the City of Yakima reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Police Pension	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ —	\$ —
Changes of assumptions	—	—
Payments subsequent to the measurement date	—	—
Total	<u>\$ —</u>	<u>\$ —</u>

Deferred outflows of resources related to pensions resulting from the City of Yakima's payments subsequent to the measurement date will be recognized as a reduction of the total pension liability in the year ended December 31, 2017. There are no deferred outflows as of December 31, 2017. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31	
2018	\$ —
2019	—
2020	—
2021	—
2022	—
Thereafter	—

NOTE 6 – OTHER POSTEMPLOYMENT BENEFIT (OPEB) PLANS

In addition to providing pension benefits, the City provides certain health care (100% of medically necessary costs) and life insurance benefits for retired employees under the City's Firemen's and Police Pensions as prescribed by state statutes. Current employees under these two pensions become eligible for those benefits if they reach normal retirement age while working for the City. The cost of retiree health care insurance and life insurance benefits is recognized as an expenditure as claims are paid. Both plans are being funded 100% by the City on a pay as you go basis. For 2017, the costs totaled \$224,094 for the Firemen's Pension which has a total of 49 participants currently eligible to receive benefits and \$200,198 for the Police Pension which has a total of 33 participants currently eligible to receive benefits.

LEOFF I

Under RCW law, retiree medical, hospital, and nursing care, as long as a disability exists, are covered for any active firefighter hired prior to March 1, 1970. For any retired officer hired prior to March 1, 1970, retiree medical, hospital, and nursing care are covered at the discretion of the Retirement Board. Members retired prior to 1961 for reasons other than duty disability are not eligible for retiree medical benefits during retirement. Under LEOFF Law, the necessary hospital, retiree medical, and nursing care expenses not payable by Workers' Compensation, Social Security, etc. are covered for any active or retired LEOFF 1 member.

Employees are eligible to receive lifetime retiree medical benefits upon service retirement after age 50 with at least five years of service. If they are not eligible to retire when leaving LEOFF, but have 20 years of service credit, they are eligible for retiree medical benefits when pension benefits commence. Employees also receive lifetime benefits upon disability.

Effective January 1, 2007, the City began reimbursing dental costs up to an annual maximum of \$500 for LEOFF I Fire/Police employees.

Funding Policy

Funding for LEOFF retiree health care costs is provided entirely by the City as required by RCW. The City's funding policy is based upon pay as you go financing requirements.

OPEB Costs, Contributions, and Net Obligations

The City's annual other postemployment benefit (OPEB) cost is calculated based upon the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that if paid on an ongoing basis is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities over a period of thirty years as of January 1, 2012. The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's net OPEB. The net Fire and Police OPEB obligation of \$17.2 million is included as a noncurrent liability on the Statement of Net Position.

ANNUAL OPEB COST AND NET OPEB OBLIGATION – LEOFF

	Fire		
	2015	2016	2017
Annual required contribution (ARC)			
Amortization of UAAL	\$ 1,775,393	\$ 1,775,393	\$ 1,775,393
Interest	62,139	62,139	62,139
ARC at EOY	1,837,532	1,837,532	1,837,532
Interest on net OPEB obligation	195,718	235,668	275,505
Adjustment to ARC	(345,884)	(428,932)	(517,444)
Annual OPEB cost	1,687,366	1,644,268	1,595,593
Employer contributions	(545,944)	(506,061)	(224,094)
Change in net OPEB obligation	1,141,422	1,138,207	1,371,499
Net beginning OPEB obligation	5,591,944	6,733,366	7,871,573
Net OPEB obligation	\$ 6,733,366	\$ 7,871,573	\$ 9,243,072

	Police		
	2015	2016	2017
Annual required contribution (ARC)			
Amortization of UAAL	\$ 1,628,448	\$ 1,628,448	\$ 1,628,448
Interest	56,996	56,996	56,996
ARC at EOY	1,685,444	1,685,444	1,685,444
Interest on net OPEB obligation	165,225	198,999	235,191
Adjustment to ARC	(291,995)	(362,192)	(441,728)
Annual OPEB cost	1,558,674	1,522,251	1,478,907
Employer contributions	(593,717)	(488,187)	(200,198)
Change in net OPEB obligation	964,957	1,034,064	1,278,709
Net beginning OPEB obligation	4,720,727	5,685,684	6,719,748
Net OPEB obligation	\$ 5,685,684	\$ 6,719,748	\$ 7,998,457

Funded Status

As of January 1, 2018, the most recent actuarial valuation date, the plan was 0.0% funded. The accrued liability for benefits was \$55.0 million and the actuarial value of the assets was \$0, resulting in a UAAL of \$55.0 million. A schedule of funding progress is provided as required supplementary information. This schedule provides information on the trend of funding ratio for the three most recent actuarial studies.

The City's annual OPEB cost, the percentage of OPEB cost contributed to the plan, and the net OPEB obligation is shown in the following chart.

OPEB CONTRIBUTIONS – LEOFF

	Valuation Date	Annual OPEB Cost	Percent of OPEB Contributed	Net OPEB Obligation
Fire	12/31/15	\$ 1,687,366	32.4%	\$ 6,733,366
	12/31/16	1,644,268	30.8%	7,871,573
	12/31/17	1,595,593	14.0%	9,243,072
Police	12/31/15	\$ 1,558,674	38.1%	\$ 5,685,684
	12/31/16	1,522,251	32.1%	6,719,748
	12/31/17	1,478,907	13.5%	7,998,457

Actuarial Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities, consistent with the long-term perspective of the calculations.

In the January 1, 2018 actuarial valuation, the Entry Age Normal actuarial cost method was used. The actuarial assumptions used included a 3.5% discount rate, which is based upon the long-term investment yield on the investments that are expected to be used to finance the payment of benefits. Medical trend assumptions range from 6.7% for 2016 dropping gradually to 5.0% in 2024 and beyond.

The UAAL is being amortized on a closed basis at the assumed discount rate. The remaining amortization period at January 1, 2008 was 30 years.

NON-LEOFF I EMPLOYEES

The City of Yakima provides to its retirees employer-provided subsidies associated with postemployment medical benefits. Retirees eligible to receive pension benefit payments along with their qualifying dependents are eligible to remain on the medical insurance plan up to Medicare eligible age 65, by self-paying the entire composite premium rates which blend both active and inactive (i.e. retired) member claims history.

City members under the age of 65 are eligible for retiree medical benefits after becoming eligible for retirement pension benefits (either reduced or full pension benefits). Spouses of retired members of Plan 1 of LEOFF under the age of 65 are also eligible for benefits. Also, dependent children of retirees under the age of 25 are eligible for benefits.

Former members who are entitled to a deferred vested pension benefit are eligible to receive medical benefits after pension benefit commencement. Spouses under age 65 of covered members are eligible for medical benefits after the members' benefits terminate due to death or obtaining age 65.

Upon retirement, members are permitted to receive medical benefits. Retirees paid \$781.78 per month for pre-65 Medical coverage for 2017. If a retiree chooses to cover his spouse and/or eligible family an amount of \$948.10 per month for pre-65 Medical coverage was paid in 2017.

Funding Policy

The funding policy is based upon the pay as you go financing requirements.

OPEB Costs, Contributions, and Net Obligations

The City's annual other postemployment benefit (OPEB) cost is calculated based upon the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities over a period of thirty years as of January 1, 2012. The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's net OPEB.

ANNUAL OPEB COST AND NET OPEB OBLIGATION – NON-LEOFF

	Non-LEOFF		
	2015	2016	2017
Annual required contribution (ARC)			
Annual normal cost	\$ 436,955	\$ 436,955	\$ 436,955
Amortization of UAAL	451,435	451,435	451,435
Interest	31,094	31,094	31,094
ARC at EOY	919,484	919,484	919,484
Interest on net OPEB obligation	123,357	144,777	160,665
Adjustment to ARC	(218,002)	(263,504)	(301,755)
Annual OPEB cost	824,839	800,757	778,394
Employer contributions	(212,830)	(346,815)	(342,135)
Change in net OPEB obligation	612,009	453,942	436,259
Net beginning OPEB obligation	3,524,472	4,136,481	4,590,423
Net OPEB obligation	\$ 4,136,481	\$ 4,590,423	\$ 5,026,682

Funded Status

As of January 1, 2018, the most recent actuarial valuation date, the plan was 0.0% funded. The accrued liability for benefits was \$7.3 million and the actuarial value of the assets was \$0, resulting in a UAAL of \$7.3 million. A schedule of funding progress is provided as required supplementary information. This schedule provides information on the trend of funding ratio for the three most recent actuarial studies.

The City's annual OPEB cost, the percentage of OPEB cost contributed to the plan, and the net OPEB obligation for 2017 is shown in the following chart.

OPEB CONTRIBUTIONS – NON-LEOFF

(Amount Expressed in Thousands)

	Valuation Date	Annual	Percent	Net
		OPEB Cost	of OPEB Contributed	OPEB Obligation
Non-LEOFF	12/31/15	\$ 824,839	25.8%	\$ 4,136,481
	12/31/16	800,757	43.3%	4,590,423
	12/31/17	778,394	44.0%	5,026,682

Actuarial Assumptions

Actuarial valuations 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 the health care cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities, consistent with the long-term perspective of the calculations.

In the January 1, 2018 actuarial valuation, the Entry Age Normal actuarial cost method was used. The actuarial assumptions used included a 3.5% discount rate, which is based upon the long-term investment yield on the investments that are expected to be used to finance the payment of benefits. Medical trend assumptions range from 6.7% for 2016 dropping gradually to 5.0% in 2024 and beyond.

The UAAL is being amortized on a closed basis at the assumed discount rate. The remaining amortization period at January 1, 2008 was 30 years.

NOTE 7 – SELF-INSURANCE

The City maintains Reserve Funds to provide for self-insurance coverage in the areas of Unemployment Compensation, Medical/Dental coverage, and Workers' Compensation. In addition, the City maintains a Risk Management Fund to provide for property, liability, and other coverage.

UNEMPLOYMENT COMPENSATION

In 1978, the City of Yakima established an Unemployment Compensation Reserve Fund to provide unemployment compensation coverage for its employees, and thereby elected to participate with the State of Washington in a cost reimbursement instead of monthly premium program. In doing so, the City retained its right to appeal awards and determinations made by the State Department of Employment Security. The City has contracted with Equifax Workforce Solutions to represent the City in appeal hearings and to provide audits of state awards.

The State of Washington invoices the City on a quarterly basis for reimbursement of claims which represent payment of unemployment compensation and related administrative costs. Resources accrue to the Unemployment Compensation Reserve Fund through monthly charges made to each Operating Fund based on employee earnings. Normal accrual rates have been between .5 and .75 percent of gross payroll, while costs under the monthly premium program would have been approximately three-percent of payroll. The City has achieved considerable savings. Interfund premiums are based primarily upon the insured funds claims experience and are reported as quasi external interfund transactions - these totaled \$212,144 for 2017. The reserve balance at the end of 2017 was \$93,686. No incurred but not reported claims have been accrued as a liability.

MEDICAL & DENTAL COVERAGE

The City, in August, 1979, self-insured its medical and dental programs for all eligible employees (temporary employees and employees hired to work less than half time are not eligible to participate in the plan). The City's Human Resources Office administers the self-insured program and claims payments. The third party administrator is Employee Benefit Management Services, Inc. (EBMS).

Each Operating Fund is charged an accrual amount per covered employee which would otherwise have been paid to an insurance carrier. These amounts are determined by the City based upon recommendations made by Emspring, the contracted broker. Factors considered by the broker include the amount of claims paid the previous year, increases over prior years, claims administration costs, projected insurance industry inflation rates and the status of the Fund's Reserve. Interfund premiums for 2017 were \$10,291,686. The reserve balance at the end of 2017 was \$645,422, after considering incurred but not reported claims of \$500,000 that have been accrued as a liability.

In order to avoid catastrophic losses, the City reinsures the program by purchasing insurance known as "stop loss insurance." Two types of "stop loss" insurance are purchased: 1) individual stop loss; and, 2) aggregate stop loss, with both provided through Sun Life Financial. Under the individual stop loss insurance, the City pays the first \$250,000 of claims for an individual employee or dependent. Any charges accrued by an individual in excess of \$250,000 in a calendar year are thereafter reimbursed by Sun Life. The aggregate stop loss is designed to protect the City from multiple large claims which may not reach the individual stop loss attachment point (\$250,000). The aggregate stop loss attachment point is calculated by determining the projected amount of claims for the year and adding an additional 25% of that amount (125% of projected claims).

WORKERS COMPENSATION

The City self-insured its workers' compensation program for all employees except those covered by the LEOFF 1 Retirement System in July, 1984. This workers' compensation program provides coverage identical to the state administered workers' compensation program; however, the City pays only the direct injury related costs and certain

administrative fees. The program is administered by the City's Human Resources Office with claims administration and safety services provided by Intermountain Claims, Inc.

Each operating fund is charged an appropriate accrual amount, per employee, based on rate requirements prescribed by the State of Washington. Each year the reserve fund balance is reviewed to determine a contribution rate which provides for an appropriate reserve. Interfund premiums to the fund were \$1,407,577. The reserve balance at the end of 2017 was negative \$340,002 after considering, based on the claims manager's estimate, the accrual for incurred but not reported claims of \$450,000 at December 31, 2017.

In order to avoid catastrophic losses, the City "reinsures" the program by purchasing insurance known as "stop loss" insurance. This insurance is provided through Payne West Insurance under a policy purchased from Safety National Casualty Corporation. Under the individual stop loss coverage, the City pays the first \$650,000 of a claim and the insurance company pays the balance for an individual claim or the balance up to a maximum of \$25 million for multiple claims arising from a single incident.

NOTE 8 – RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The Risk Management Fund was established in 1986 to account for its risk management program. Resources accrue to the fund through interfund premiums to operating funds for appropriate insurance coverage and the replenishment and building of reserves for potential liability claims. City interfund contributions to the Risk Management Reserve Fund were \$4,990,945. The fund provides for administration, legal services, and claims adjustment and for the purchase of property, general liability, and other insurance coverage.

Liabilities of the fund are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that has been incurred but not reported. The result of the process to estimate the claims liability is not an exact amount as it depends on many complex factors, such as inflation, changes in legal doctrines, and damage awards. Accordingly, claims are reevaluated periodically to consider recent claim settlement trends, inflation, and other economic or social factors. The estimate of the claims liability also includes amounts for incremental claim adjustment expenses related to specific claims. Estimated recoveries, for example from subrogation, are another component of the claims liability estimate. Based on these factors, the claims manager's estimate of claims liability at December 31, 2017, is \$750,000.

The Risk Management fund balance was (\$161,580) at the end of 2017, due to a large settlement in 2016 and the continuing effect of the pension obligation tied to City employees allocated to this function. However, the fund balance has been significantly rebuilt from the 2016 negative balance of \$2.2 million through increased contributions.

PROPERTY AND LIABILITY INSURANCE

Affiliated FM Insurance Company

The City of Yakima purchases property insurance and boiler and machinery insurance from Affiliated FM Insurance Company covering loss or damage to City owned property from various perils including earthquake and flood.

Coverage – The policy is subject to a \$100,000,000 limit per occurrence and a \$100,000 per occurrence deductible.

Cities Insurance Association of Washington

Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a program or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the interlocal Cooperation Act. The Cities Insurance Association of

Washington (CIAW) was formed on September 1, 1988, when 34 cities in the state of Washington joined together by signing an interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. The City of Yakima became an associate member effective December 14, 2005, and became a member effective September 1, 2010. As of December 31, 2017, there are 281 members in the program.

The City participates in the CIAW insurance pool administered by Canfield & Associates. The program provides the following forms of joint self-insurance and excess coverage for its members: Property, including automobile comprehensive and collision, equipment breakdown and crime protection, and liability, including general, automobile and wrongful acts are included to fit members' various needs. The City purchases property and equipment breakdown coverage separate from the pool.

Members contract to remain in the program for a minimum of one year, and must give notice before August 31 terminating participation the following September 1. The interlocal Agreement is renewed automatically each year. In the event of termination, a member is still responsible for contributions to the program for any unresolved, unreported, and in-process claims for the period they were a signatory to the interlocal Agreement.

A board of ten members is selected by the membership from three geographic areas of the state on a staggered term basis and is responsible for conducting the business affairs of the program. The program has no employees. Claims are filed by members with Canfield, which has been contracted to perform program administration, claims adjustment and administration, and loss prevention for the program. Copies of the CIAW pool's annual report may be obtained by writing to 451 Diamond Drive, Ephrata, WA 98823.

Coverage – The Cities Insurance Association of Washington (“CIAW”) program acquires liability insurance through the Administrator, Clear Risk Solutions, and the CIAW program is subject to a per-occurrence self-insured retention of \$100,000 per occurrence. Members are responsible for individual deductibles, which vary by member. The City of Yakima has a \$100,000 deductible, and the CIAW pool is responsible for claims between \$100,000 and \$200,000. For the City of Yakima, insurance covers insured losses over \$200,000 to the limits of each policy. Since the program is a cooperative program, there is a joint liability among the participating members towards the sharing of the \$100,000 of the self-insured retention of the CIAW pool. The program also purchases an Aggregate Stop Loss Policy to cap the total claims paid by the program in any one year.

Washington State Transit Insurance Pool

WSTIP is a 25-member self-insurance program with public transit members who provide transit services and is located in Olympia, Washington. WSTIP supplies Yakima Transit auto liability, general liability, and public officials' liability coverage.

The Washington State Transit Insurance Pool was formed by Interlocal Agreement on January 1, 1989, pursuant to Chapters 48.61 and 39.34 RCW. The purpose for forming WSTIP was to provide member Transit Systems programs of joint self-insurance, joint purchasing of insurance and joint contracting for hiring of personnel to provide risk management, claims handling and administrative services. Transit authorities joining the Pool must remain members for a minimum of 36 months; a member may withdraw from the Pool after that time by giving 12 months' notice. The Pool underwriting and rate setting policies have been established after consultation with actuaries. The Pool members are subject to a supplemental assessment in the event of deficiencies. If the assets of the Pool were to be exhausted, members would be responsible for the Pool's liabilities. WSTIP is regulated by the Washington State Risk Manager and audited yearly by the Washington State Auditor.

The City of Yakima Transit Division is insured for liability insurance through the Washington State Transit Insurance Pool (WSTIP), and has been a member since September 1, 2005.

Coverage – The City of Yakima Transit Division has liability coverage, which is not subject to a deductible amount, and public official liability coverage, subject to a deductible amount of \$5,000, with the Washington State Transit Insurance Pool (“WSTIP”), Olympia, Washington. The per occurrence and aggregate limits of liability of the liability coverage through WSTIP are \$20,000,000. Since joining WSTIP on September 1, 2005, the City of Yakima Transit Division has not presented any claims to WSTIP that exceeded its coverage limits through WSTIP.

WSTIP LIABILITY COVERAGE

Risk	Coverage Period	Coverage
Auto liability	1/1/17 - 12/31/17	\$20,000,000 per occurrence with a \$0 deductible
General liability	1/1/17 - 12/31/17	\$20,000,000 per occurrence with a \$0 deductible
Public officials	1/1/17 - 12/31/17	\$20,000,000 per claim/aggregate with a \$5,000 deductible

NOTE 9 – LONG-TERM LIABILITIES, DEBT AND CAPITAL LEASES

The State law provides that debt cannot be incurred in excess of the following percentages of the value of the taxable property of the City.

LEGAL DEBT PERCENTAGE

		Limit by Section	Cumulative Limit
General purpose			
Without a vote (includes capital leases)	1.5%		
With a vote	1.0%	2.5%	2.5%
Utilities purpose		2.5%	5.0%
Open space and parks facilities		2.5%	7.5%
Total legal limit		<u>7.5%</u>	

The basic percentages for Section I are the maximum levels of indebtedness those sections may incur. However, utility or parks indebtedness may each exceed 2.5% and reduce the general indebtedness margin. The percentages are applied to the taxable assessed value (regular levies) of about \$6.0 billion, resulting in the debt limits, as of December 31, 2017, for the City as follows:

CUMULATIVE DEBT LIMITS

Assessed valuation of taxable property in the City of Yakima - tax year 2017	\$5,957,828,341			
	Without a Vote	With a Vote		
	General Purpose	General Purpose	Utilities	Open Space & Parks
	1.5%	+1.0%=2.5%	+2.5%=5.0%	+2.5%=7.5%
Legal limit - percent of assessed valuation	\$ 89,367,425	\$ 148,945,709	\$ 297,891,417	\$ 446,837,126
Less: net outstanding indebtedness (see below)	29,244,238	29,244,238	29,244,238	29,244,238
Margin available	<u>\$ 60,123,187</u>	<u>\$ 119,701,471</u>	<u>\$ 268,647,179</u>	<u>\$ 417,592,888</u>
Net outstanding indebtedness				
Outstanding debt	\$ 40,784,301			
Less: available resources to repay debt	11,540,063			
Net outstanding indebtedness	<u>\$ 29,244,238</u>			

There have been no material violations of finance related legal or contractual provisions in any of the funds of the City. All bonded debt of the City is tax exempt, except for the \$5.0 million private placement Parks bond issued in 2015. We believe the City to be in compliance with applicable IRS & SEC regulations.

The accompanying schedule of long term debt provides a listing of the outstanding debt of the City and summarizes the City's debt transactions for 2017.

LONG-TERM LIABILITIES

	Balance		Payments/ Retirements	Amounts		
	1/1/2017	Additions		Balance 12/31/2017	Due Within One Year	Noncurrent Portion
Governmental activities						
General obligation debt						
Bonds	\$ 32,902,230	\$ —	\$ 3,429,756	\$ 29,472,474	\$ 3,320,787	\$ 26,151,687
Unamortized premium (discount)	1,279,571	210,264	152,028	1,337,807	—	1,337,807
Intergovernmental loans	6,839,131	61,580	1,181,340	5,719,371	382,991	5,336,380
Lease purchase agreements	2,930,077	2,189,736	865,164	4,254,649	1,042,074	3,212,575
Net pension liability*	25,197,040	(14,540)	—	25,182,500	—	25,182,500
Unfunded OPEB liability	22,550,731	(2,090,954)	—	20,459,777	—	20,459,777
Compensated absences	8,797,549	(46,581)	—	8,750,968	994,237	7,756,731
Total liabilities - governmental activities	<u>100,496,329</u>	<u>309,505</u>	<u>5,628,288</u>	<u>95,177,546</u>	<u>5,740,089</u>	<u>89,437,457</u>
Business-type activities						
Revenue debt						
Revenue bonds	14,875,000	—	1,515,000	13,360,000	1,575,000	11,785,000
Unamortized premium (discount)	614,449	—	94,646	519,803	—	519,803
Intergovernmental loans	19,800,326	—	1,475,155	18,325,171	1,463,765	16,861,406
Net pension liability (restated)	9,859,795	(2,308,215)	—	7,551,580	—	7,551,580
Unfunded OPEB liability	1,654,440	154,006	—	1,808,446	—	1,808,446
Compensated absences	1,660,830	1,654	—	1,662,484	200,326	1,462,158
Noncurrent liabilities - business-type	<u>48,464,840</u>	<u>(2,152,555)</u>	<u>3,084,801</u>	<u>43,227,484</u>	<u>3,239,091</u>	<u>39,988,393</u>
Total noncurrent liabilities	<u>\$ 148,961,169</u>	<u>\$ (1,843,050)</u>	<u>\$ 8,713,089</u>	<u>\$ 138,405,030</u>	<u>\$ 8,979,180</u>	<u>\$ 129,425,850</u>

* Beginning balance for net pension liability reflects prior period restatement due to GASB #73. the additions column includes an adjustment of \$5,023,428 to reclassify Police pension formerly classified as an OPEB liability.

GENERAL OBLIGATION DEBT

General obligation bonds consist of serial and term bonds, to be retired through the fiscal year ending December 31, 2035. The City levies a special property tax; collects motel/hotel taxes, Business License fees, utility taxes; and receives State sales tax credits and gas tax for the principal and interest payments due within a fiscal year and provides the amounts in the respective Debt Service Fund.

GENERAL OBLIGATION BONDS

	Date of Final Maturity	Interest Rate	Original Issue	Outstanding 12/31/17	Average Annual Debt Service
Regular property tax levy					
2008 Fire ladder truck	12/01/21	3.25% - 4.0%	\$ 760,000	\$ 270,000	73,050
2013 Streets project	06/20/28	1.67%	5,000,000	3,630,769	377,230
2014 Street resurfacing project	06/01/24	3.0% - 5.0%	13,140,000	9,885,000	1,650,925
2015 Yakima sports complex	06/01/35	3.35% - 8.15%	5,000,000	4,512,916	400,000
Total regular property tax levy			<u>23,900,000</u>	<u>18,298,685</u>	

GENERAL OBLIGATION BONDS

	Date of Final Maturity	Interest Rate	Original Issue	Outstanding 12/31/17	Average Annual Debt Service
Regular property tax levy/real excise tax					
2007 River Road project bond	05/01/17	4.0% -5 .0%	1,765,000	—	220,375
2007 Fire station West Valley rehab bond	05/01/22	4.0% -5 .0%	815,000	330,000	73,149
2007 Downtown revitalization project	05/01/22	4.0% -5 .0%	1,490,000	600,000	133,185
2008 Third Ave/Mead/Walnut St project bond	12/01/19	3.25% - 4.0%	2,190,000	455,000	241,221
Total regular property tax levy/real excise tax			6,260,000	1,385,000	
Motel/hotel tax					
2004 Conv center expansion bond ref 1996	11/01/19	2.0% - 4.2%	4,175,000	730,000	399,933
Public Facilities District (state sales tax credit)					
2007 Conv center addition refund 2002	05/01/26	4.0% -5 .0%	4,910,000	3,435,000	456,674
2009 Capitol Theatre expansion	12/01/32	3.0% - 6.6%	7,035,000	5,230,000	773,531
Total Public Facilities District			11,945,000	8,665,000	
Business licenses & real estate excise tax					
2003 SunDome expansion	12/01/23	2.34%-4.72%	1,430,528	393,790	148,083
			\$ 47,710,528	\$ 29,472,475	

REVENUE BONDS

Water, Wastewater and Irrigation revenue bonds consist of serial and term bonds, to be retired through the fiscal year ending December 31, 2034. The principal and interest for the water and wastewater parity revenue bonds are provided by the results of operations. Principal and interest on Irrigation System Bonds are provided by capital rates.

UTILITY REVENUE BONDS

	Date of Final Maturity	Interest Rate	Original Issue	Outstanding 12/31/2017	Average Annual Debt Service
2004 Irrigation revenue bonds	09/01/34	2.0% - 4.8%	\$ 5,215,000	\$ 3,680,000	\$ 322,181
2008 Wastewater revenue bonds (refund 1998)	11/01/27	4.0 - 5.0%	1,883,951	3,345,000	231,250
2008 Wastewater revenue bonds	11/01/18	4.0 - 5.0%	5,440,000	220,000	411,813
2012 Wastewater revenue bonds (refund 2003)	11/01/23	2.0% - 4.0%	9,400,000	6,115,000	1,162,300
			\$ 21,938,951	\$ 13,360,000	

The following Schedule sets forth revenue debt service requirements to maturity (in thousands) and depicts both bond and intergovernmental loans and contracts.

REVENUE DEBT SERVICE

	Bonded Debt	Interest	Notes & Contracts	Interest
2018	\$ 1,575	\$ 556	\$ 1,464	\$ 123
2019	1,400	498	1,465	115
2020	1,460	441	1,466	106
2021	1,520	381	1,468	97
2022	1,575	319	1,392	91
2023 - 2027	3,965	866	6,099	319
2028 - 2032	1,270	332	4,132	139
2033 - 2037	595	43	852	16
	\$ 13,360	\$ 3,436	\$ 18,338	\$ 1,006

At December 31, 2017, the City had \$1.8 million in restricted net position for debt service for the enterprise funds. These are in compliance with reserve requirements as contained in the various indentures.

INTERGOVERNMENTAL LOANS AND CONTRACTUAL AGREEMENTS

The City participated in a program administered by the State’s Department of Community Development on behalf of the Public Works Board. The program provides financial assistance for general government activities, such as street/ bridge improvements, or proprietary activities, such as water or sewage projects. The City has several loans through the Washington State Loan Programs as described in the following chart.

During 2017, the City borrowed \$61,580 from Yakima County’s Supporting Investment in Economic Development (SIED) program to support the extension of water and wastewater infrastructure along River Road to serve Yakima Valley Brewing Company and approximately three acres of commercial property currently served by private wells and septic systems. Sales and use tax will be collected to repay the debt.

INTERGOVERNMENTAL LOANS

	Interest	Maturity Date	Maximum Authorized	Outstanding 12/31/2017
General long-term debt				
Arterial street gas tax				
PC08-951-052 - 2009 Railroad grade separation	0.5%	07/01/28	\$ 3,000,000	\$ 1,816,103
2015 SIED Loan - 2015 Yakima County SIED Loan	2.4%	06/01/23	307,000	307,000
2016 SIED Loan - 2015 Yakima County SIED Loan	2.6%	06/01/27	900,000	900,000
2017 SIED Loan - YV Brewing Project	3.2%	06/01/23	61,580	61,580
Real estate excise tax				
L1000030-0 - 2010 Railroad grade separation	2.9%	06/01/34	1,229,295	1,099,688
General fund telephone utility tax - Yakima County				
COMM Ctr 911 - 2014 City Portion of 911 Call Dispatch Center	2.0 - 3.5%	05/01/34	1,716,500	1,535,000
Local Infrastructure Financing Tool (LIFT) sale tax credit				
2014 SIED (LIFT) Loan - 2014 Yakima County SIED Loan (LIFT)	2.4%	06/01/17	900,000	—
Sub-total general long-term debt				5,719,371

INTERGOVERNMENTAL LOANS

	Interest	Maturity Date	Maximum Authorized	Outstanding 12/31/2017
Revenue debt				
Wastewater operating revenue				
PW-01-691-071 - 2001 Fruitvale neighborhood Sewer	0.5%	07/01/21	1,466,250	310,500
PW-05-691-064 - 2005 River Road sewer	0.5%	07/01/25	2,307,000	993,966
PW-07-962-019 - 2007 Ultra violet disinfection	0.5%	07/01/27	2,300,000	1,213,889
PC-12-951-065 - 2012 Wastewater Treatment Plan	0.5%	06/01/32	5,000,000	3,767,108
PC-13-961-059 - 2012 Industrial Sewer main extensions	0.5%	06/01/37	2,000,000	1,626,794
L1100008 - 2011 Energy efficiency project	2.8%	03/31/33	516,192	434,966
L1200019 - 2012 Industrial waste anaerobic	2.6%	07/01/34	602,634	538,103
Water operating revenue				
PW-03-691-027 - 2003 Naches WTP improvements	0.5%	07/01/23	2,559,775	808,350
SRF-04-65104-037 - 2005 Naches river WTP filter rehab	0.5%	10/01/25	894,380	376,581
PC-08-951-051 - 2009 New water well	0.5%	07/01/28	2,257,200	1,332,637
PC-13-961-074 - 2013 Automated reading system	0.3%	07/01/32	5,000,000	3,947,368
DM-11-952-038 - 2013 Design WTP lagoons	1.5%	10/01/34	3,480,000	2,987,580
Sub-total revenue debt				<u>18,337,842</u>
Total intergovernmental loans				<u><u>\$ 24,057,213</u></u>

The Public Works Trust Fund loans have a term not to exceed twenty years and require 1/19th of the original principal plus interest to be paid each July 1st. These are subordinate to utility systems' parity debt and do not require a full faith and credit pledge.

The following schedule sets forth the general obligation debt and intergovernmental loans and contracts, debt service requirements including interest, to maturity (in thousands).

GENERAL OBLIGATION DEBT SERVICE

	Bonded Debt	Interest	Notes & Contracts	Interest
2018	\$ 3,321	\$ 1,230	\$ 383	\$ 162
2019	3,362	1,111	425	116
2020	2,893	988	430	109
2021	2,961	915	440	100
2022	2,985	815	451	91
2023 - 2027	9,616	2,291	2,132	319
2028 - 2032	3,587	1,197	1,049	139
2033 - 2036	747	453	348	16
	<u>\$ 29,472</u>	<u>\$ 9,000</u>	<u>\$ 5,658</u>	<u>\$ 1,052</u>

At December 31, 2017, the City had \$238,823 available in debt service funds to service the General Obligation Bonds and notes.

There are a number of other limitations and restrictions contained in the various bond indentures. The City is in compliance with all significant limitations and restrictions.

LEASE PURCHASE AGREEMENTS

General Capital Assets

As part of the City's capital equipment budgeting program, selected items are obtained via lease purchase and municipal lease/deferred purchase plans. Since the leases are financing agreements which transfer ownership to the City at the end of the lease term, the City records the present value of future lease payments as a capital outlay expenditure and as an offset to other financial sources in the year that the asset is received. The present value of payments due in future periods is shown as a liability in the financial statements and the cost of the asset is recorded in the financial statements.

On March 15, 2011 the City of Yakima borrowed \$576,847 using Washington State's Local Option Capital Lending (LOCAL) program. The proceeds were used to purchase two Fire apparatus, approved by City Council on January 18, 2011. The certificates of participation have an all-inclusive financing cost of 3.02% and will be repaid annually over the next 10 years out of General Fund.

On March 19, 2013 the City of Yakima borrowed \$310,414 using Washington State's Local Option Capital Lending (LOCAL) program. The proceeds were used to purchase one Fire apparatus, approved by City Council on December 4, 2012. The certificates of participation have an all-inclusive financing cost of 1.93% and will be repaid annually over the next 10 years out of General Fund.

On August 16, 2013 the City of Yakima borrowed \$4,632,792 from Washington State's Local Option Capital Lending (LOCAL) program. The proceeds were used to purchase 74 Police vehicles for expansion of the assigned Police vehicle program approved by City Council on June 4, 2013. The certificates of participation have an all-inclusive financing cost of 1.619% and will be repaid annually over the next 6 years out of General Fund.

On September 28, 2017 the City of Yakima borrowed \$2,189,736 using Washington State's Local Option Capital Lending (LOCAL) program. The proceeds are being used to add new lighting fixtures and upgrade existing fixtures, approved by City Council on April 16, 2013. The certificates of participation have an all-inclusive financing cost of 1.76% and will be repaid annually over the next 10 years out of General Fund.

LEASED EQUIPMENT

Two fire apparatus	\$ 194,141
One fire apparatus	203,316
74 Police vehicles; 70 air packs for fire service	1,667,456
Energy Project (Lighting)	2,189,736
Total	<u>\$ 4,254,649</u>

The following is a schedule of the future minimum lease payments under the above capital leases and the present value of net minimum lease payments at December 31, 2017, for the fiscal year listed:

LEASE PAYMENTS

Due in 2018	\$ 1,207,627
Due in 2019	1,250,086
Due in 2020	373,916
Due in 2021	303,711
Due in 2022	303,453
Due in 2023-2026	<u>1,366,866</u>
Total minimum lease payments	4,805,659
Less: Amount representing interest	<u>551,010</u>
Present value of minimum lease payments	<u>\$ 4,254,649</u>

UNFUNDED POST EMPLOYMENT BENEFIT LIABILITIES

Starting in 2008, the City implemented GASB 45 for Other Post-Employment Benefits (OPEB), and initial actuarial evaluations were performed as of January 1, 2008. By State statute, the City is required to provide health care benefits for certain retired police officers and firefighters. The City's self-insured medical plan allows retirees and the eligible dependents to self-pay premiums using the same rate as active employees, until they reach age 65, thereby creating an "implicit rate subsidy". All three of the programs are pay as you go.

OUTSTANDING LIABILITIES

	Balance		Balance
	1/1/17	Additions	12/31/17
OPEB Fire - medical	7,871,573	1,371,499	9,243,072
OPEB Police - medical	6,719,748	1,278,709	7,998,457
OPEB Non-LEOFF - medical	4,590,423	436,259	5,026,682
Total	<u>\$ 19,181,744</u>	<u>\$ 3,086,467</u>	<u>\$ 22,268,211</u>

The Police OPEB and Fire OPEB are paid out of a department in the General Fund. The non-LEOFF retiree benefits are being paid annually through the Employees Health Benefit Reserve fund. The unfunded pension liability will be adjusted annually by comparing actual expenditures for benefits to the actuarially determined contribution.

See Note 5 for additional information on the pension funds, and Note 6 for additional information on Other Post-Employment Benefits.

NOTE 10 – CONTINGENCIES AND LITIGATIONS

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

SECTION 108 LOAN PROGRAM

In 2003, the City was authorized to administer a Housing and Urban Development (HUD) Section 108 Loan program. HUD authorized the City to lend up to a maximum of \$6.945 million in two separate loan pools (\$4 million in 2003 and \$2.945 million in 2005). These federal loans were available for the purpose of funding property rehabilitation for economic development activities that create new jobs within the target area. As of December 31, 2017, the City had approved all its authorized maximum Section 108 loans of \$6.945 million. The nature of this program is the City approves qualified projects for the loan within HUD guidelines and acts as a conduit for HUD funds. The loan proceeds flow directly to the ultimate Corporate Borrower. Payments flow from the Corporate Borrower to the City's Custodian and then to HUD. The loans are on an amortization schedule from 10 years to 25 years. The HUD contract specifically provides that the loans are not full faith and credit obligations of the City, but instead, future Community Development Block Grant (CDBG) allocations are pledged on these loans. The City has entered into agreements to collateralize their position within HUD underwriting guidelines. In 2005, one of the loans was defeased and another defeased in 2009. Additionally, the City has been awarded a \$1.0 million Economic Development Initiative (EDI) grant from HUD as a protection in case of a default. As of December 31, 2017, there is only one HUD 108 loan remaining.

POTENTIAL LITIGATION

The City is a defendant in various legal actions and claims that arise during the normal course of business, some of which, but not all, are covered by insurance. Although certain lawsuits and claims are significant in amount, the final dispositions are not determinable and, in the opinion of City management, the final outcome of these matters, taken

individually or in the aggregate, are not expected to have a material adverse effect on the governmental operations or financial position of the City. The City has provided for reserves to address these matters, which include but are not limited to, lawsuits described below. City management believes these reserves and/or insurance are adequate to cover such matters.

The City is a party to a lawsuit in federal court in Case No. 13-CV-3012-TOR where the plaintiff alleges his constitutional rights were violated by City police as a result of felony charges, his conviction in 1996 and subsequent imprisonment. The plaintiff brought a lawsuit against the City and a City police officer after a second trial in 2010 where he was acquitted. The police officer remained as a defendant, and the plaintiff claims damages in the approximate amount of \$20 million plus fees and costs. On July 7, 2014, Judge Thomas O. Rice dismissed the case with prejudice. On August 1, 2014, the plaintiff filed a Notice of Appeal in U.S. Court of Appeals for the Ninth Circuit in Case No. 14-35651. On September 25, 2015, the Ninth Circuit reversed the summary judgment, the case was remanded for trial, and the jury trial was set for September 12, 2016. On May 23, 2016, Judge Thomas O. Rice issued an "Order on Defendant's Motion for Summary Judgment" and granted summary judgment in the police officer's favor. The Court granted defendant's Motion for Summary Judgment, and dismissed all plaintiff's claims with prejudice. On May 25, 2016, the plaintiff filed an appeal to the U.S. Court of Appeals for the Ninth Circuit, Case No. 16-35440. On May 18, 2018, oral argument on the plaintiff's appeal occurred before the Ninth Circuit. On June 13, 2018, the Ninth Circuit issued a Memorandum decision which affirmed Judge Thomas O. Rice's decision on May 23, 2016 which granted the officer's motion for summary judgment and dismissed all claims in the case.

NOTE 11 – FUND BALANCE CLASSIFICATION

The City's fund balances are classified in accordance with Governmental Accounting Standards Board Statement Number 54 (GASB 54), Fund Balance Reporting and Governmental Fund Type Definitions, which require the City to classify its fund balances based on spending constraints imposed on the use of resources. The following is a schedule of the ending fund balance as of December 31, 2017.

FUND BALANCE

Fund Balance	General Fund	Neighborhood Development Fund	Other Gov't Funds	Total
Nonspendable				
Permanent fund	\$ —	\$ —	\$ 667,296	\$ 667,296
Restricted				
Emergency programs	—	—	106,362	106,362
Arterial street construction & maintenance	—	—	1,523,066	1,523,066
Housing & economic development	—	683,209	46,065	729,274
Public safety	—	—	1,037,915	1,037,915
Debt service	—	—	238,823	238,823
Capital improvements	—	—	4,238,072	4,238,072
Tourism & conventions	—	—	1,528,321	1,528,321
Total restricted	—	683,209	8,718,624	9,401,833

FUND BALANCE

Fund Balance	General Fund	Neighborhood Development Fund	Other Gov't Funds	Total
Committed				
Public safety & emergency programs	1,359,167	—	—	1,359,167
Community relations	—	—	708,399	708,399
Parks and recreation	—	—	35,384	35,384
Streets	—	—	849,894	849,894
Capital improvements	—	—	2,266,297	2,266,297
Other	—	—	61,431	61,431
Tourism & conventions	—	—	99,521	99,521
Total committed	1,359,167	—	4,020,926	5,380,093
Assigned				
Parks and recreation	—	—	411,326	411,326
Streets	—	—	256,191	256,191
Public safety & emergency programs	—	—	477,133	477,133
Debt service	—	—	8,734	8,734
Tourism & conventions	—	—	102,791	102,791
Total assigned	—	—	1,256,175	1,256,175
Unassigned	7,391,559	—	(1,082,051)	6,309,508
Total fund balance	\$ 8,750,726	\$ 683,209	\$ 13,580,970	\$ 23,014,905

NOTE 12 – SEGMENT INFORMATION

WATER AND WASTEWATER UTILITIES

For the purposes of revenue bond debt issuance, the water and wastewater utilities are combined in a single segment (i.e., the System). Therefore, investors in the revenue bonds rely on the revenue generated by both activities for repayment. Investors in irrigation revenue bonds rely solely on the revenue generated from the irrigation utility for repayment. Summary financial information for the System and irrigation utility follows.

SYSTEM INFORMATION

Condensed statement of net position	Water /	
	Wastewater	Irrigation
Assets		
Current Assets	\$ 28,183,807	\$ 4,361,899
Restricted assets	1,835,000	—
Capital assets, net of accumulated depreciation	115,959,950	18,050,494
Total assets	145,978,757	22,412,393

SYSTEM INFORMATION

	Water /	
	Wastewater	Irrigation
Deferred outflows of resources	888,395	53,488
Total assets & deferred outflows of resources	<u>146,867,152</u>	<u>22,465,881</u>
Liabilities		
Current liabilities	5,062,834	289,004
Noncurrent liabilities	31,289,069	4,000,730
Total liabilities	<u>36,351,903</u>	<u>4,289,734</u>
Deferred inflows of resources	646,190	63,057
Total liabilities & deferred inflows of resources	<u>36,998,093</u>	<u>4,352,791</u>
Net position		
Net investment in capital assets	87,562,559	14,438,731
Restricted	1,835,000	—
Unrestricted	20,471,501	3,674,358
Total net position	<u>\$ 109,869,060</u>	<u>\$ 18,113,089</u>
Condensed statement of revenues, expenses and changes in net position		
Operating revenues		
Charges and fees for services	\$ 30,101,876	\$ 3,087,175
Other operating revenue	68,026	—
Total operating revenues	<u>30,169,902</u>	<u>3,087,175</u>
Operating expenses		
Personnel services	7,222,845	755,905
Materials and supplies	1,469,882	80,314
Contractual services	15,484,360	900,025
Depreciation	6,108,281	445,859
Total operating expense	<u>30,285,368</u>	<u>2,182,103</u>
Operating income (loss)	(115,466)	905,072
Nonoperating revenues (expense)		
Grants and subsidies	157,127	—
Interest revenue	1,500	500
Interest & other debt service costs	(518,526)	(180,894)
Gain (loss) disposal of capital assets	5,780	800
Total nonoperating revenue (exp)	<u>(354,119)</u>	<u>(179,594)</u>
Income (loss) before conts & transfers	(469,585)	725,478
Capital contributions	1,437,977	—
Operating transfers (net)	(422,433)	(33,896)
Change in net position	<u>545,959</u>	<u>691,582</u>
Net position - beginning	109,323,100	17,421,506
Net position - ending	<u>\$ 109,869,059</u>	<u>\$ 18,113,088</u>

SYSTEM INFORMATION

	Water /	
	<u>Wastewater</u>	<u>Irrigation</u>
Condensed statement of cash flows		
Net cash provided (used)		
Operating activities	\$ 5,661,498	\$ 1,367,769
Capital financing activities	(4,826,960)	(388,579)
Investing activities	(108,940)	(1,043,207)
Net increase (decrease)	<u>725,598</u>	<u>(64,017)</u>
Beginning cash and cash equivalents	<u>2,834,127</u>	<u>300,913</u>
Ending cash and cash equivalents	<u>\$ 3,559,725</u>	<u>\$ 236,896</u>

NOTE 13 – OTHER DISCLOSURES

RELATED PARTIES

The Yakcorps (632) fund was established in 2011 to account for the fiscal activity of the Yakima Consortium for Regional Public Safety (YAKCORPS). YAKCORPS consists of a variety of local agencies and governments. It was formed to operate and maintain a county-wide multi-discipline public safety system. An Interlocal Agreement provides for the structure, governance, operations and funding of the Consortium and its activities. Per the Agreement, the City of Yakima acts as fiscal agent for the Consortium.

SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY

As of June 30

Amounts Expressed in Thousands

Page 1 of 1

PERS 1	2015	2016	2017
Employer's proportion of the net pension liability (asset)	0.24734%	0.24366%	0.23963%
Employer's proportionate share of the net pension liability	\$ 12,938	\$ 13,086	\$ 11,371
Employer's covered employee payroll	664	569	29
Employer's proportionate share - net pension liability as a % of covered employee payroll	1,948.9%	2,299.3%	39.6%
Plan fiduciary net position as a % of the total pension liability	59.1%	59.0%	61.2%
PERS 2/3			
Employer's proportion of the net pension liability (asset)	0.29422%	0.29033%	2.88441%
Employer's proportionate share of the net pension liability	\$ 10,512	\$ 14,618	\$ 10,022
Employer's covered employee payroll	21,025	27,401	28,294
Employer's proportionate share - net pension liability as a % of covered employee payroll	50.0%	53.3%	35.4%
Plan fiduciary net position as a % of the total pension liability	89.2%	85.8%	91.0%
PSERS			
Employer's proportion of the net pension liability (asset)	0.24616%	0.21717%	0.21427%
Employer's proportionate share of the net pension liability	\$ 45	\$ 92	\$ 42
Employer's covered employee payroll	718	705	765
Employer's proportionate share - net pension liability as a % of covered employee payroll	6.3%	13.1%	5.5%
Plan fiduciary net position as a % of the total pension liability	95.1%	90.4%	96.3%
LEOFF 1			
Employer's proportion of the net pension liability (asset)	0.26860%	0.26420%	0.26250%
Employer's proportionate share of the net pension liability	\$ (3,237)	\$ (2,722)	\$ (3,983)
Employer's proportionate share - net pension liability as a % of covered employee payroll	—%	—%	—%
Plan fiduciary net position as a % of the total pension liability	127.4%	123.7%	136.0%
LEOFF 2			
Employer's proportion of the net pension liability (asset)	0.74262%	0.74336%	0.73990%
Employer's proportionate share of the net pension liability	\$ (7,633)	\$ (4,324)	\$ (10,267)
State's proportion of the net pension liability (asset) associated with the employer	(720)	(741)	(782)
Total	<u>\$ (8,353)</u>	<u>\$ (5,065)</u>	<u>\$ (11,049)</u>
Employer's covered employee payroll	\$ 21,562	\$ 22,520	\$ 23,145
Employer's proportionate share - net pension liability as a % of covered employee payroll	(35.4%)	(19.2%)	(44.4%)
Plan fiduciary net position as a % of the total pension liability	111.7%	106.0%	113.4%

Note: The City implemented GASB 68 for the year ended December 31, 2015 - yearly information will be added until the 10-year requirement is met. The City of Yakima has no current LEOFF I employees.

SCHEDULE OF EMPLOYER CONTRIBUTIONS

As of December 31

Amounts Expressed in Thousands

Page 1 of 1

PERS 1	2015	2016	2017
Statutorily or contractually required contributions	\$ 1,263	\$ 1,433	\$ 1,489
Contributions in relation to the statutorily or contractually required contributions	(1,263)	(1,433)	(1,489)
Contribution deficiency (excess)	\$ —	\$ —	\$ —
Covered payroll	\$ 554	\$ 587	\$ 29
Contributions as a percentage of covered employee payroll	228.0%	244.2%	5.1%
PERS 2/3			
Statutorily or contractually required contributions	\$ 1,511	\$ 1,741	\$ 1,930
Contributions in relation to the statutorily or contractually required contributions	(1,511)	(1,741)	(1,930)
Contribution deficiency (excess)	\$ —	\$ —	\$ —
Covered payroll	\$ 26,794	\$ 27,401	\$ 28,706
Contributions as a percentage of covered employee payroll	5.6%	6.4%	6.7%
PSERS			
Statutorily or contractually required contributions	\$ 46	\$ 49	\$ 53
Contributions in relation to the statutorily or contractually required contributions	(46)	(49)	(53)
Contribution deficiency (excess)	\$ —	\$ —	\$ —
Covered payroll	\$ 712	\$ 705	\$ 800
Contributions as a percentage of covered employee payroll	6.5%	6.9%	6.6%
LEOFF 2			
Statutorily or contractually required contributions	\$ 1,121	\$ 1,152	\$ 1,198
Contributions in relation to the statutorily or contractually required contributions	(1,121)	(1,152)	(1,198)
Contribution deficiency (excess)	\$ —	\$ —	\$ —
Covered payroll	\$ 22,188	\$ 22,520	\$ 23,417
Contributions as a percentage of covered employee payroll	5.0%	5.1%	5.1%

Note: The City implemented GASB 68 for the year ended December 31, 2015 - yearly information will be added until the 10-year requirement is met.

SCHEDULE OF FUNDING PROGRESS

December 31, 2017

Amounts Expressed in Thousands

Page 1 of 1

	Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL % of Covered Payroll
Police Pension	01/01/12	\$ —	\$ 7,726	\$ 7,726	0.0%	\$ —	0.0%
	01/01/14	—	6,413	6,413	0.0%	—	0.0%
	01/01/16	—	5,726	5,726	0.0%	—	0.0%
Police OPEB	01/01/12	—	23,007	23,007	0.0%	n/a	n/a
	01/01/14	—	25,615	25,615	0.0%	n/a	n/a
	01/01/16	—	26,327	26,327	0.0%	n/a	n/a
Fire Pension	01/01/12	795	8,168	7,373	10.0%	—	0.0%
	01/01/14	941	7,099	6,158	13.0%	—	0.0%
	01/01/16	1,019	7,392	6,373	14.0%	—	0.0%
Fire OPEB	01/01/08	—	24,295	24,295	0.0%	n/a	n/a
	01/01/12	—	26,344	26,344	0.0%	n/a	n/a
	01/01/15	—	28,703	28,703	0.0%	n/a	n/a
Non-LEOFF OPEB	01/01/08	—	7,003	7,003	0.0%	n/a	n/a
	01/01/12	—	7,843	7,843	0.0%	n/a	n/a
	01/01/15	—	7,298	7,298	0.0%	n/a	n/a

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
FIRE & POLICE PENSIONS

For the Year Ended December 31, 2017
 Last 10 Fiscal Years

Page 1 of 1

	<u>2017</u>
Fire Pension	
Total pension liability	
Interest	\$ 247,672
Differences between expected and actual experience	(43,347)
Changes of assumptions	129,589
Benefit payments, including refunds of contributions	<u>(600,924)</u>
Net change in total pension liability	(267,010)
Total pension liability - beginning	<u>6,902,294</u>
Total pension liability - ending	<u><u>\$ 6,635,284</u></u>
Covered payroll	—
Police Pension	
Total pension liability	
Interest	\$ 194,378
Differences between expected and actual experience	(604,017)
Changes of assumptions	92,572
Benefit payments, including refunds of contributions	<u>(400,538)</u>
Net change in total pension liability	(717,605)
Total pension liability - beginning	<u>5,381,844</u>
Total pension liability - ending	<u><u>\$ 4,664,239</u></u>
Covered payroll	—

Note: The City implemented GASB 73 for the year ended December 31, 2017. This schedule is presented to illustrate the requirement to show information for 10 years. However, recalculations of prior years are not required, and if prior years are not reported in accordance with the current GASB standards, they should not be reported.

City of Yakima
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2017

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Total	Passed through to Subrecipients	Note
				From Pass- Through Awards	From Direct Awards				
Food And Nutrition Service, Department Of Agriculture (via WA Office of Superintendent of Public Instruction)	Child and Adult Care Food Program	10.558	39141326	11,074	-	-	11,074	-	
CDBG - Entitlement Grants Cluster									
Office Of Community Planning And Development, Department Of Housing And Urban Development	Community Development Block Grants/Entitlement Grants	14.218	B16-MC-53-0008	-	415,759	-	415,759	117,500	6
Office Of Community Planning And Development, Department Of Housing And Urban Development	Community Development Block Grants/Entitlement Grants	14.218	B15-MC-53-0008	-	239,452	-	239,452	-	
Office Of Community Planning And Development, Department Of Housing And Urban Development	Community Development Block Grants/Entitlement Grants	14.218	CDBG Program Income	-	102,805	-	102,805	-	3
Total CDBG - Entitlement Grants Cluster:				-	758,016	-	758,016	117,500	
Office Of Community Planning And Development, Department Of Housing And Urban Development	Home Investment Partnerships Program	14.239	M16-MC53-0203	-	37,172	-	37,172	34,147	6
Office Of Community Planning And Development, Department Of Housing And Urban Development	Home Investment Partnerships Program	14.239	M15-MC53-0203	-	175,859	-	175,859	112,806	6,7
Office Of Community Planning And Development, Department Of Housing And Urban Development	Home Investment Partnerships Program	14.239	Home Program Income	-	465,941	-	465,941	454,821	3,6,7
Total CFDA 14.239:				-	678,972	-	678,972	601,774	
Violence Against Women Office, Department Of Justice (via Yakima County Sheriff)	Violence Against Women Formula Grants	16.588	1	13,375	-	-	13,375	-	
Bureau Of Justice Assistance, Department Of Justice	Bulletproof Vest Partnership Program	16.607	1	-	25,580	-	25,580	-	

The accompanying notes are an integral part of this schedule.

Bureau Of Justice Assistance, Department Of Justice	Edward Byrne Memorial Justice Assistance Grant Program	16.738	333	-	28,781	28,781	-
Criminal Division, Department Of Justice	Equitable Sharing Program	16.922	152	-	31,498	31,498	-
Federal Aviation Administration (faa), Department Of Transportation	Airport Improvement Program	20.106	AIP 36	-	15,096	15,096	2
Federal Aviation Administration (faa), Department Of Transportation	Airport Improvement Program	20.106	AIP 37	-	109,626	109,626	2
Federal Aviation Administration (faa), Department Of Transportation	Airport Improvement Program	20.106	AIP 38	-	112,051	112,051	2
Federal Aviation Administration (faa), Department Of Transportation	Airport Improvement Program	20.106	AIP 39	-	16,145	16,145	2
Federal Aviation Administration (faa), Department Of Transportation	Airport Improvement Program	20.106	AIP 40	-	749,365	749,365	2
Total CFDA 20.106:				-	1,002,283	1,002,283	-
Highway Planning and Construction Cluster							
Federal Highway Administration (fhwa), Department Of Transportation (via WA Department of Transportation)	Highway Planning and Construction	20.205	STPUS-4566 (007)	10,261	-	10,261	2
Federal Highway Administration (fhwa), Department Of Transportation (via WSDOT)	Highway Planning and Construction	20.205	STPUS-4579 (011)	5,129	-	5,129	2
Federal Highway Administration (fhwa), Department Of Transportation (via WSDOT)	Highway Planning and Construction	20.205	HSIP-000s(473)	3,455	-	3,455	2
Total Highway Planning and Construction Cluster:				18,845	-	18,845	-
Federal Transit Cluster							
Federal Transit Administration (fta), Department Of Transportation	Federal Transit Formula Grants	20.507	WA-90X508-00	-	2,268,868	2,268,868	-
Total Federal Transit Cluster:				-	2,268,868	2,268,868	-
Federal Transit Administration (fta), Department Of Transportation (via WSDOT)	Formula Grants for Rural Areas	20.509	GCB2643	108,952	-	108,952	2

The accompanying notes are an integral part of this schedule.

Office Of The Secretary (ost) Administration Secretariate, Department Of Transportation	20.930	1	-	72,333	72,333	-
Payments for Small Community Air Service Development						
Administration For Community Living, Department Of Health And Human Services (via Yakima County)	93.043	0969-054703	16,886	16,886	-	-
Special Programs for the Aging, Title III, Part D, Disease Prevention and Health Promotion Services						
Aging Cluster						
Administration For Community Living, Department Of Health And Human Services (via Yakima County)	93.044	Daycare	10,658	10,658	-	-
Special Programs for the Aging, Title III, Part B, Grants for Supportive Services and Senior Centers						
Total Aging Cluster:			10,658	10,658		
Federal Emergency Management Agency (fema), Department Of Homeland Security (via WA State Military Department)	97.042	EMPG E17-143	85,677	85,677	-	-
Emergency Management Performance Grants						
Federal Emergency Management Agency (fema), Department Of Homeland Security	97.083	SAFER 33197	-	183,500	183,500	7
Staffing for Adequate Fire and Emergency Response (SAFER)						
Total Federal Awards Expended:			265,467	5,049,831	5,315,298	719,274

The accompanying notes are an integral part of this schedule.

City of Yakima

**Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2017**

Note 1 – Basis of Accounting

This schedule is prepared on the same basis of accounting as the City of Yakima’s financial statements. The City of Yakima uses the modified accrual system for all governmental funds: full accrual for proprietary, nonexpendable, and pension trust 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 of Yakima’s portion, are more than shown. Such expenditures are recognized following, as applicable, either the cost principles in the 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 of Yakima has a revolving loan program for low income housing renovation. Under this federal program, repayments to the City of Yakima are considered program revenues (income) and loans of such funds to eligible recipients are considered expenditures.

Note 4 – Federal Loans - Section 108

In 2003, the City of Yakima was authorized to administer a Section 108 Loan program. There were no new loans in 2017. Since the City is only contingently liable, this amount is not included in the Schedule of Long-Term Debt.

Note 5 – Indirect Cost Rate

The City of Yakima has not elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

Note 6 - Amount paid to Sub-Recipients

The City of Yakima paid the following amounts to sub-recipients

CDBG 14.218	\$67,500 - OIC of WA
	<u>50,000 - RCDR</u>
	\$117,500
HOME 14.239	\$448,493 – Yakima Housing Authority
	141,918 - Yakima Valley Partners Habitat for Humanity
	<u>11,363 - Catholic Charities Housing Services</u>
	\$601,774

Note 7 – Prior Year Adjustment

The City of Yakima included 2016 expenditures of \$104,468.23 for the SAFER grant, CFDA #97.083, because they were not included on the 2016 SEFA. Actual 2017 expenditures were \$79,032, for a total of \$183,500.

The City also included 2016 expenditures of \$6,507 in the HOME M15-MC53-0203 grant, and \$15,917 of HOME Program Income because they were not included on the 2016 SEFA. Actual 2017 expenditures were \$169,352 and \$450,024 for the M15-MC53-0203 and HOME Program Income grants, respectively.

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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

Contact information for the State Auditor's Office	
Public Records requests	PublicRecords@sao.wa.gov
Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	www.sao.wa.gov