



Washington State Auditor's Office

Independence • Respect • Integrity

Financial Statements Audit Report

City of Maple Valley

King County

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

Published July 16, 2015

Report No. 1014625





Washington State Auditor's Office

July 16, 2015

Council
City of Maple Valley
Maple Valley, Washington

Report on Financial Statements

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

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

Sincerely,

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

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**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 Maple Valley
King County
January 1, 2014 through December 31, 2014**

Council
City of Maple Valley
Maple Valley, 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 Maple Valley, King County, Washington, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 24, 2015.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

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

COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.



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

June 24, 2015

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

City of Maple Valley King County January 1, 2014 through December 31, 2014

Council
City of Maple Valley
Maple Valley, 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 Maple Valley, King County, Washington, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed on page 9.

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 Maple Valley, as of December 31, 2014, and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparison for the General, Transportation Development, Park Development, Real Estate Excise Tax, Drug Seizure, Transportation Benefit District and Bond Proceeds funds, 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 on pages 10 through 26 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.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated June 24, 2015 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



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

June 24, 2015

FINANCIAL SECTION

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

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2014

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2014

Statement of Activities – 2014

Balance Sheet – Governmental Funds – 2014

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

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

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

Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual (GAAP Basis) – General Fund – 2014

Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual (GAAP Basis) – Transportation Development Fund – 2014

Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual (GAAP Basis) – Park Development Fund – 2014

Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual (GAAP Basis) – Real Estate Excise Tax Fund – 2014

Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual (GAAP Basis) – Drug Seizure Fund – 2014

Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual (GAAP Basis) – Transportation Benefit District Fund – 2014

Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual (GAAP Basis) – Bond Proceeds Fund – 2014

Statement of Net Position – Proprietary Funds – 2014

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

Statement of Cash Flows – Proprietary Funds – 2014

Notes to the Financial Statements – 2014

**City of Maple Valley
Management's Discussion and Analysis
December 31, 2014**

As the management of the City of Maple Valley, we offer readers of this report this narrative overview and analysis of the financial activities of the City of Maple Valley for fiscal year ended December 31, 2014. In addition to the information provided here, we encourage readers to consider the additional information furnished in the letter of transmittal and the notes to the financial statements. Where applicable, the amounts below for the prior year have been restated for the prior period adjustment referenced in Note 14, including changes from prior year to current year.

Financial Highlights

- The assets of the City of Maple Valley exceeded its liabilities at December 31, 2014 by \$397,809,504 (*net position*). Of this amount, \$6,880,999 (*unrestricted net position*) may be used to meet the city's ongoing obligations to citizens and creditors. Of the rest, \$10,999,445 is restricted for specific operating and capital purposes, and \$379,929,060 is net investment in capital assets.
- During 2014, the City's total net position increased \$4,949,224. This amount includes an increase of \$3,522,107 in invested in capital assets net of related debt, an increase of \$644,115 in restricted net position and an increase of \$783,001 in unrestricted net position.
- At December 31, 2014 the City of Maple Valley's governmental funds reported a combined ending fund balance of \$14,632,746 up \$1,144,163 from the prior year amount of \$13,488,582. While the City budgeted a \$4,792,266 decrease in governmental fund ending fund balance from \$13,493,207 to \$8,700,941, the governmental fund ending fund balance was \$5,931,805 better than budgeted. Governmental fund revenues were above budget by \$1,598,348.
- At the end of 2014, the assigned and unassigned fund balance for the General Fund was \$3,544,769, 33% of total General Fund expenditures. This amount is up \$444,222 from 2013 ending assigned and unassigned fund balance of \$3,100,547. The main reason for the increase was additional revenue associated with an increase in sales tax revenue and the establishment of a cable television utility tax beginning in January 2014.
- The City of Maple Valley's total liabilities increased \$321,524 from \$7,442,207 to \$7,763,731. The increase was in long term debt that was added for the Ravensdale Park project and intergovernmental payables, offset by current year debt service payments and a decrease in vendor payables with less year-end construction projects in progress. The 2014 liabilities include \$4,350,000 in general obligation bonded debt up \$1,010,000 from the 2013 amount of \$3,340,000. On August 25, 2014, and again on April 10, 2015, Standard and Poor's Rating Services affirmed the AA+ underlying rating on these bonds.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Maple Valley's financial statements. The City of Maple Valley's financial statements include the government-wide financial statements, the fund financial statements, and the notes to the financial statements.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the City of Maple Valley's finances, in a format similar to that provided for private-sector businesses. The statements segregate activity into two categories: governmental activities and business-type activities. The governmental activities of the City of Maple Valley include: general government; community development; human services; parks and recreation; except the Lake Wilderness Golf Course, public safety; and public works, except the surface water management function. The governmental activities also include internal service funds as discussed

**City of Maple Valley
Management's Discussion and Analysis
December 31, 2014**

below. The business-type activities include the surface water management function and the Lake Wilderness Golf Course.

The *statement of net position* presents information on the City of Maple Valley's assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City of Maple Valley is improving or deteriorating. The *statement of activities* presents information showing how the City's net position changed during the year. The *statement of activities* identifies the City's activities and the program revenues that helped fund them. The Statistical Section provides summary information on net position and changes in net position from 2005 through 2014.

Fund financial statements. The fund financial statements provide summary information by fund type. The City of Maple Valley, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. A *fund* is a grouping of related accounts that are segregated to maintain control over resources that have been designated to finance specific activities. All of the funds of the City of Maple Valley can be divided into two categories: governmental funds and proprietary funds.

Governmental funds. *Governmental funds* are used to account for the governmental activities shown on the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of resources*, as well as on the *balances of resources* available. Governmental funds are concerned with having available resources (i.e. "working capital" - current assets less current liabilities) to meet the expenditure needs as identified in the budget. As part of the governmental funds presentation, a comparison of actual expenditures to both the original and final budget is shown for the General Fund and all Special Revenue Funds.

Proprietary funds. *Proprietary funds* are used to account for operations that are designed to generate revenues to cover the total cost of operation including depreciation. The City of Maple Valley has both types of proprietary funds: enterprise funds and internal service funds. Enterprise funds are used to account for the activity of the City's surface water management function and Lake Wilderness Golf Course. The internal service funds are used to account for the operation of the City's vehicle rental, central services, and unemployment trust functions. These internal service functions accumulate costs and charge them to operating departments. They also charge replacement and reserve fees to insure future availability of funds to replace equipment or to fund unemployment claims. As mentioned above, internal service funds in the City of Maple Valley are categorized as governmental activities.

A complete reconciliation of the fund financial statements to the government-wide financial statements is included in the government-wide financial statements. The reconciliation is required:

- To reclassify capital expenditures to assets and to record depreciation of governmental capital assets,
- To reclassify debt issuances and repayments from sources and uses of funds to increases or decreases in liabilities, and
- To record the assets, liabilities, and net revenues of internal service funds. By including only net revenues, the double counting of transactions between the internal service funds and the funds they provide services to is eliminated.

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

Required supplementary information. Generally accepted accounting principles (GAAP) require that certain unaudited information accompany the basic financial statements. The technical term for this additional information is *required supplementary information (RSI)*. In general, there are five types of RSI for state and local governments:

Management's Discussion and Analysis (MD&A),
Budgetary Comparisons,
Trend Data for Pension Funding,
Claims Development Data for Public Entity Risk Pools, and
Trend Data for Infrastructure Condition.

Because the *MD&A* is designed, in part, to introduce the basic financial statements, it is presented before the basic financial statements. The *budgetary comparisons* for the general and special revenue funds are shown in the fund financial statements. The *budgetary comparisons* for other funds are shown in the combining statements and schedules section of this report.

With respect to *trend data for pension funding*, information is not included because the City of Maple Valley does not sponsor a defined benefit plan. The City of Maple Valley participates in the Washington State Public Employees Retirement System (PERS) plan and in defined contribution plans sponsored by the International City/County Management Association Retirement Corporation (ICMA-RC). These plans are described in the notes to the financial statements.

With respect to *claims development data for public entity risk pools*, the City is a member of the Washington Cities Insurance Authority (WCIA). Per GAAP, they, as a public entity risk pool, include in their financial statements, trend data on pool revenues as well as actual and estimated claims. A description of the pool is included in the notes to the financial statements.

With respect to *trend data on infrastructure condition*, the City has chosen to record infrastructure assets on the face of the financial statements and therefore *trend data on infrastructure condition* is not required.

Government-wide Financial Statement Analysis

Statement of net position. The statement of net position provides information on the City's assets, liabilities, and net position, and compares the balances by major category to the previous year's balances. The overall financial position of the City improved by \$4,932,634, or 1.3%. The table that follows summarizes the statement of net position. The table shows the individual components of these amounts by major account group for governmental activities and business-type activities with totals and comparisons to the preceding year.

The subsequent narrative explains the account balances and the changes from the prior year. Amounts for 2013 have been restated for the effect of a prior period adjustment as discussed in the notes to the financial statements.

**City of Maple Valley
Management's Discussion and Analysis
December 31, 2014**

**Condensed Statement of Net Position
(Dollars expressed in thousands)**

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	2014	(Restated) 2013	2014	2013	2014	(Restated) 2013
Assets						
Current Assets	\$ 16,556	\$ 15,893	\$ 2,892	\$ 2,632	\$ 19,448	\$ 18,525
Capital Assets	370,061	369,360	16,064	12,417	386,125	381,778
Total Assets	386,618	385,253	18,955	15,049	405,573	400,302
Liabilities						
Current Liabilities	1,388	1,906	179	166	1,568	2,071
Long-term Liabilities	6,196	5,371	-	-	6,196	5,371
Total Liabilities	7,584	7,277	179	166	7,764	7,442
Net position						
Invested in Capital Assets, net of related Debt	363,865	363,990	16,064	12,417	379,929	376,407
Restricted	10,999	10,355	-	-	10,999	10,355
Unrestricted	4,169	3,632	2,712	2,466	6,881	6,098
Total Net Position	\$ 379,034	\$ 377,977	\$ 18,776	\$ 14,883	\$ 397,810	\$ 392,860

Current assets at December 31, 2014 totaled \$19,447,966 up \$923,261 or 5.0% from the December 31, 2013 amount of \$18,524,705. The change is comprised of an increase in cash, cash equivalents and receivables, offset by a decrease in investments, intergovernmental receivable and inventory. Cash and cash equivalents include: petty cash and other imprest funds totaling \$18,280, the checking account balance of \$3,469,050, and \$9,171,434 invested overnight with the State of Washington Local Government Investment Pool (LGIP). In addition to the LGIP investments, at year end the City had \$5,371,794 or 27.6% of current assets invested in one certificate of deposit for \$1,000,000 maturing in 2015 and five individual U.S. government agency securities with maturities in 2015 through 2018. At year-end the LGIP was earning 0.10%. The other investments were earning an average 1.96%.

The remaining current asset balance at December 31, 2014 was \$1,417,408 or 7.3%. Of this amount: \$898,136 was for taxes receivable, \$157,726 was for accounts receivable, \$54,647 was for accrued interest receivable, \$192,430 was for intergovernmental receivables, \$56,790 was for inventory, and \$57,681 was for prepaid items.

Of the taxes receivable amount of \$898,136 all but \$5,658 was collected by February 28, 2015. The \$5,658 is for gambling taxes due from Gloria's Restaurant, taxes have not been remitted to the City since first quarter of 2014; the delinquency has been reported to the gambling commission. Of the accounts receivable amount of \$157,726, \$35,298 was for receivables from developers, \$29,201 was for a settlement receivable, \$79,962 was in surface water management fee receivables, \$11,358 was due from ICMA for forfeitures on the deferred compensation plan for unvested balances of prior employees, and \$1,907 was miscellaneous. The receivables from developers are for billings of City staff time on various developer projects. Amounts are considered very collectible in the normal course of business as project approvals are not provided until all unpaid receivables are paid. The majority of the surface water management fee receivables, \$48,107, is due from Fire District #43 for surface water management fees from 2002 through 2014. The district has not paid these fees claiming that the City owes them an at least equivalent amount in payments in lieu of taxes for City owned facilities. The issue remains unresolved. The remaining delinquent surface water management fees are collected by King County with delinquent property taxes in the normal course of business.

**City of Maple Valley
Management's Discussion and Analysis
December 31, 2014**

Of the intergovernmental receivables amount of \$192,430; \$26,850 is due from the State of Washington, \$142,593 is due from King County, \$21,755 is due from the City of Kent, and \$1,232 is due from the City of Enumclaw. The State of Washington amount is for Transportation Benefit District vehicle fees and a Washington State Traffic Safety Commission grant. The King County amount is for property taxes, real estate excise taxes, surface water management fees, and overbilling of the Police contract. Police contract overbilling is the normal process whereby the County bills the City monthly based on the budget. At year-end a reconciliation process to actual for salary and benefits costs is made with the reconciliation amount adjusting the first billing of the new year which usually isn't billed until late Spring.

Inventory is for food, beverages, and merchandise at the Lake Wilderness Golf Course. The prepaid amount is for the City Hall building lease and miscellaneous expenses for 2015 that the City was required to pay prior to the end of 2014. More detailed information on receivables and other short-term assets is provided in the notes to the financial statements.

Capital assets, net of accumulated depreciation, totaled \$386,125,269 up \$4,347,486 from the prior year amount of \$381,777,783. The capital assets include infrastructure assets and related depreciation as the City has chosen not to use the modified approach which in lieu of depreciation of infrastructure assets evaluates condition and maintenance level.

The table that follows shows, by capital asset type, the capital asset year-end balances.

**City of Maple Valley's Capital Assets
(Net of Accumulated Depreciation)
(Dollars expressed in thousands)**

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Land	\$ 212,355	\$ 209,886	\$ 13,689	\$ 9,933	\$ 226,044	\$ 219,819
Intangibles-Easement	314	-	-	-	314	-
Buildings	8,257	8,519	846	874	9,103	9,393
Improvements other than Bldgs	144,723	142,605	1,506	1,578	146,229	144,183
Machinery & Equipment	393	532	23	33	416	564
Intangibles-Software	88	-	-	-	88	-
Construction in Progress	3,931	7,818	-	-	3,931	7,818
Total Capital Assets	\$ 370,061	\$ 369,360	\$ 16,064	\$ 12,417	\$ 386,125	\$ 381,778

The net increase is made up of capital asset additions and contributions of \$13,014,634 offset by the increase in accumulated depreciation of \$8,659,986, which includes depreciation of \$8,550,567 for governmental activities and \$109,419 for business-type activities. The retirements of \$88,227 were for items with accumulated depreciation of \$81,066. The City also recorded transfers and other adjustments for assets with a net book value of \$7,424,093. This was primarily for previously capitalized expenses in Construction in Progress for projects that were completed and moved to the appropriate capital asset category (land, building, infrastructure, etc).

The additions included developer contributions for land and improvements other than buildings of \$10,063,227 that were related to various commercial and residential projects contributed to the City. In addition to this, the City added construction in progress of \$2,851,221 for projects undertaken during

**City of Maple Valley
Management's Discussion and Analysis
December 31, 2014**

the year but not yet complete at year-end. The major construction in progress additions were the Ravensdale Park project, Witte Road - State Route 169 to SE 240th project, State Route 169 and 271st Place Intersection project, and 216th Ave SE, State Route 516 to South City Limits project. There are also two software projects in progress, one for a new financial software and one for the addition of a GIS module to the permitting and development project tracking software. Additional capital asset information is provided in the Note 6 to the financial statements.

Long-term liabilities at December 31, 2014 totaled \$6,196,210 up \$825,380 from the December 31, 2013 amount of \$5,370,830. The following table summarizes the long-term portion of the City's liabilities.

City of Maple Valley's Long-term Debt (current and non-current portion)
(Dollars expressed in thousands)

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Contracts & Loans - Current	\$ 185	\$ 185	\$ -	\$ -	\$ 185	\$ 185
General Obligation Bonds - Current	585	425	-	-	585	425
Contracts & Loans Payable	1,662	1,846	-	-	1,662	1,846
GO Bonds Payable	3,765	2,915	-	-	3,765	2,915
Total Long-term Debt	\$ 6,196	\$ 5,371	\$ -	\$ -	\$ 6,196	\$ 5,371

No contract and loan borrowing was done in 2014. During the year \$184,621 in infrastructure loan debt was retired. The infrastructure loan amounts are for two road improvement projects. The loans are for 20 years with final maturity in 2024. Both loans have interest rates of 0.5%.

The City issued non-voted limited tax general obligation bonds totaling \$1,530,000 in March of 2014 for the King County Ravensdale Park. During the year \$520,000 of general obligation bonded debt was retired. The general obligation bonds outstanding reflect a 2005 refunding of the callable portion of the 2000 general obligation bond issue. The remainder of the 2000 general obligation bonds was paid off on December 1, 2010. The 2005 general obligation bonds outstanding at December 31, 2014 was \$2,915,000, including the current portion of \$440,000. The bonds have approximately equal annual debt service with payoff on December 1, 2020. The bonds have interest rates of 4.00% to 4.25%. In addition to the 2005 general obligation bond, is the 2014 general obligation bond outstanding amount of \$1,435,000, including the current portion of \$145,000. The 2014 bond has an interest rate of 2.3% with payoff on December 1, 2023. More detailed information on long-term debt including issuance and redemption information and debt service to maturity can be found in the Note 8 to the financial statements. As disclosed in the subsequent events Note 15 the City refunded the outstanding 2005 bonds in April 2015.

Net position at December 31, 2014 totaled \$397,809,504, up \$4,949,224 from the December 31, 2013 amount of \$392,860,280. The largest portion of the December 31, 2014 total, \$379,929,060 or 95.5%, is net investment in capital assets. Most of this is for infrastructure assets acquired through annexation or from developer contributions either directly or through King County at various times since the City's incorporation. The second largest portion of total net assets, \$10,999,445, up \$644,115 from the December 31, 2013 amount of \$10,355,330, is restricted, primarily for capital purposes. The unrestricted net assets at December 31, 2014, totaled \$6,880,999 up \$783,001 from the December 31,

**City of Maple Valley
Management's Discussion and Analysis
December 31, 2014**

2013 amount of \$6,097,998. The change in net assets is explained in the discussion of the statement of activities, which follows.

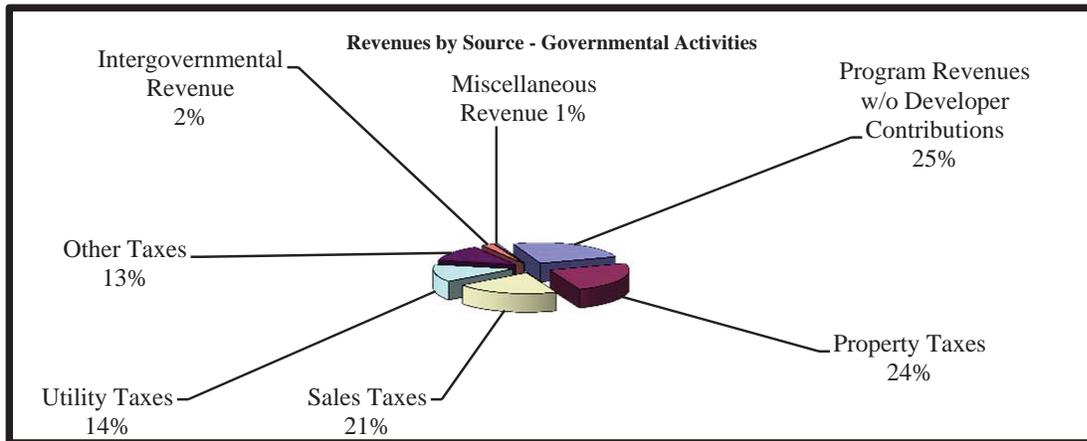
Statement of Activities. The statement of activities provides an overview of the changes in net position from December 31, 2013 to December 31, 2014. The condensed Statement of Activities shown in the table below identifies the changes in net position.

Condensed Statement of Activities
(Dollars expressed in thousands)

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	2014	2013	2014	2013	2014	2013
Revenues by Major Source						
Program Revenues						
Charges for Services	\$ 2,878	\$ 2,919	\$ 2,138	\$ 2,055	\$ 5,016	\$ 4,975
Operating Grants & Contributions	717	164	-	124	717	288
Capital Grants & Contributions	6,394	24,451	3,756	49	10,150	24,500
General Revenues						
Property Taxes	3,489	3,312	-	-	3,489	3,312
Sales Taxes	3,036	2,676	-	-	3,036	2,676
Utility Taxes	1,957	1,730	-	-	1,957	1,730
Other Taxes	1,894	1,348	-	-	1,894	1,348
Intergovernmental Revenue	354	320	-	-	354	320
Miscellaneous Revenue	82	56	13	55	96	111
Total Revenues	20,801	36,977	5,907	2,284	26,708	39,261
Expenses by Function						
General Government	2,262	2,158	-	-	2,262	2,158
Economic Environment	1,087	978	-	-	1,087	978
Mental and Physical Health	30	30	-	-	30	30
Culture and Recreation	2,485	2,378	1,059	990	3,544	3,368
Public Safety	4,017	3,882	-	-	4,017	3,882
Transportation	9,668	7,882	-	-	9,668	7,882
Utilities and Environment	154	137	825	851	979	989
Interest on Long-term Debt	172	165	-	-	172	165
Total Expenses	19,874	17,609	1,885	1,842	21,759	19,451
Excess (Deficiency) of Revenues over Expenses	927	19,368	4,023	442	4,949	19,809
Transfers In/(Out)	130	459	(130)	(459)	-	-
Increase (Decrease) in Net Position	1,057	19,827	3,892	(17)	4,949	19,809
Net Position - January 1	377,977	358,155	14,883	14,901	392,860	373,056
Prior Period Adjustment	-	(5)	-	-	-	(5)
Net Position - December 31	\$ 379,034	\$ 377,977	\$ 18,776	\$ 14,883	\$ 397,810	\$ 392,860

Governmental activities. Governmental activity revenue decreased by \$16,176,060 with the major decreases being capital grants and contributions, \$18,056,622, offset by increases in operating grants and contributions of \$552,364, sales tax of \$359,764, utility taxes of \$226,673, property taxes of \$177,184, and other taxes of \$545,921. Most of the contributions are developer contributions associated with dedicating the public infrastructure to the City. The chart below shows the distribution of the City revenues from governmental activities. Developer contributions are removed from the chart to provide a more meaningful analysis.

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Governmental activity program revenues, exclusive of developer contributions of \$6,307,327, are down \$118,672 from \$3,799,996 to \$3,681,324 primarily due a decrease of \$629,211 in capital grant revenue, an increase of \$552,364 in operating grants and contracts, and a decline of \$41,821 in charges for services. Decreased capital and operating grant contributions reflect slower than historical levels of development activity within the City. For 2014, \$493,188 that was previously characterized as capital grant and contribution was changed to operating grants and contracts. This revenue is from state shared revenue for motor vehicle fuel taxes for transportation maintenance costs.

Governmental activity general revenues are up \$1,370,019 from \$9,442,340 to \$10,812,360. The increases are in most of the major categories. The largest sources of tax revenue increases are identified below.

- Property taxes, which provided 32.3% of the tax base, increased \$177,184 or 5.3%.
- Sales taxes, which provided 28.1% of the tax base, increased \$359,764 or 13.4%.
- Utility taxes, which provided 18.1% of the tax base, increased \$226,673 or 13.1%.
- Real estate excise taxes, which provided 10.7% of the tax base, increased \$351,561 or 43.9%.

The property tax increase includes two components: an annual levy limit increase of 0.91% and a new construction levy at the prior year's levy rate that provided an increase of 2.0%.

Sales tax revenue also includes two components: locally generated revenue, \$2,468,629 and county wide revenue distributed to cities based on population, \$567,579. The locally generated revenue is from two main sources construction and non-construction retail sales. In 2014 construction sales provided 21.2% of the locally generated sales tax revenue, up from 19.1% in 2013.

Utility taxes increased \$226,673 from \$1,730,053 to \$1,956,726 due to a combination of increased utility rates and modest increases in population and the number of dwelling units, along with the addition of the cable television utility tax of 3% in January 2014.

Real estate excise tax revenue increased \$351,561 from \$801,022 to \$1,152,583 primarily due to an increase in the number and value of property sales in 2014 compared to 2013. Residential sales increased from 2013 to 2014, 589 homes sold in 2014 compared to 511 in 2013. The value of new homes increased by 22.4% during 2014, while the cost of existing homes increased by 12.6%. Overall the revenue is down substantially from the peak in 2005 of almost \$2,000,000 when 1,013 single family

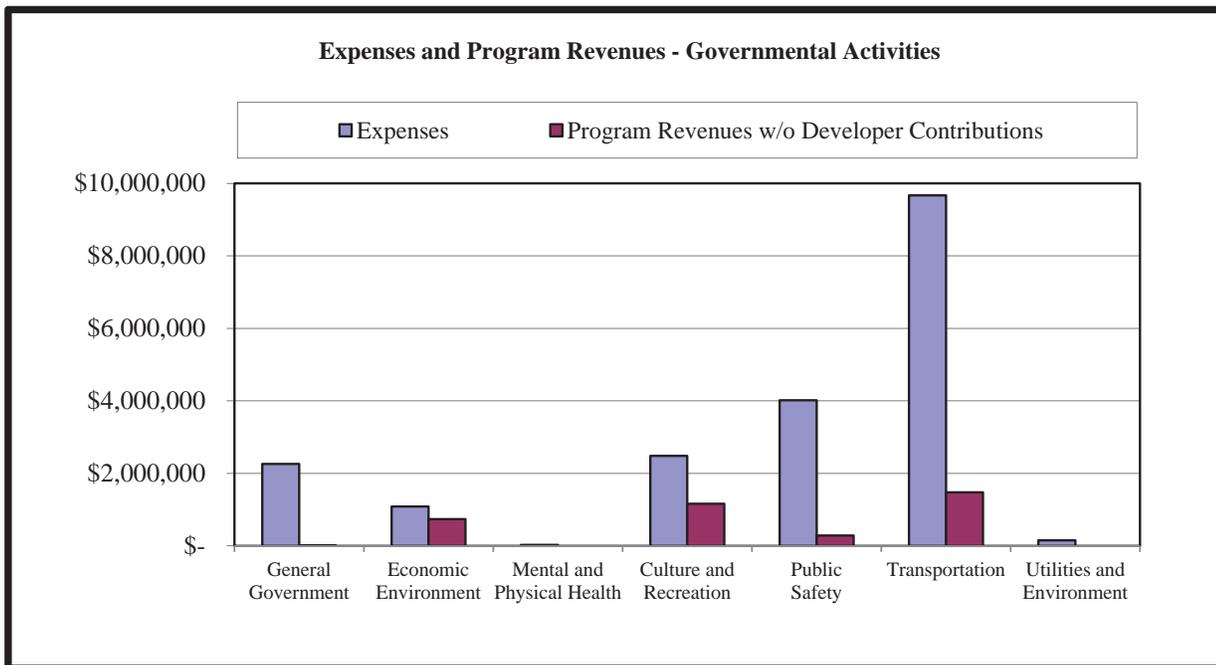
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residential homes were sold. The real estate excise tax is 1.78% on the sale of real property, with the City receiving 0.5%.

Besides the tax category changes, the other governmental activity revenues changed as follows:

- Intergovernmental revenue increased \$34,062 or 10.6%, primarily due to an increase in shared revenue from the State of Washington.
- Miscellaneous revenue increased \$26,414 or 47.3% with modest increases in investment income as well as the recovery of insurance claims and settlement amounts.

The chart below compares program expenses to program revenue.



In all programs, program expenses exceeded program revenues. In general government, program revenue from special licenses, passports and gain on sale of asset was 0.5% of program expenses. In economic environment, program revenue was 68.2% of program expenses up from 55.0% as the City permitted 169 single family residential units up from 76 in 2013. For 2014, program revenue for economic environment increased at a larger rate than did program expenses. The City needs about 250 single family residential permits and a moderate amount of commercial development to break even which the City hasn't had since 2006. In culture and recreation, program revenue was 46.8% of program expenses up from 35.1% in 2013 as park impact fees were collected with the increase in permitted lots for single family units. In transportation, program revenue was 15.3% of program expenses down from 27.8% due to lower capital grants and contributions with less capital related projects happening in 2014 compared to 2013.

Governmental activity expenses increased \$2,264,917 or 12.9% from \$17,609,496 to \$19,874,413. The categories included are: general government, economic environment, mental and physical health,

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culture and recreation, public safety, transportation, utilities and environment, and interest on long term debt.

General government expenses including: the city council, city manager, city clerk, city attorney, human resources, central services, public defender, prosecutor, Court, and finance; increased \$103,600 or 4.8%. The increase is primarily attributable to increased economic development costs and information systems central service costs. Economic development costs increased \$31,561 from \$15,575 to \$47,136 for the City Manager service contract. Additionally, \$37,245 was spent in the central services fund for an upgrade to the City's permitting and project tracking software, TRAKit, along with \$23,332 for the three year Microsoft enterprise agreement. Other parts of general government underspent their appropriations such as the City Manager, \$39,023 below budget, City Clerk's office \$56,593 below budget, court \$79,045 below budget, and Finance \$22,898 below budget.

Expenses for economic environment, commonly referred to at the City as community development, include lake management, planning, and building operations, increased \$108,576 or 11.1%. The increase is primarily due to the contracted services for the economic development comprehensive plan update, \$75,661. Additionally, the Community Development information technology services increased by \$55,045 due to additional time spent by the IT department on the upgrade of TRAKit. The City also experienced increased development activity from 2013. The Lake Management department in total had a reduction of \$22,044 in expenses primarily due less time allocated by the City's Public Works Programs Project Manager.

Mental and physical health stayed the same for 2014 as 2013. Expenses of \$30,000 relate to grant payments to the Maple Valley food bank and Vine Maple Place for \$15,000 each. The food bank provides vital nutritional resources to those in need, and Vine Maple Place provides transitional housing, mentorship, child advocacy and life-skills training assistance to homeless single parents.

Culture and recreation expenses including: parks maintenance, the Lake Wilderness Lodge, recreation programs, community events, and funding for community service agencies, increased \$107,570 or 4.5%. The increase is primarily due to information technology services, \$83,110, with the change in cost allocation method and the upgrade to the parks program tracking software, Sportsman. The Lake Wilderness Lodge also had increased expenditures for advertising of \$11,810. In the community service agencies area, the City provided an additional \$10,000 grant to the Maple Valley Community Center for the installation of an emergency generator.

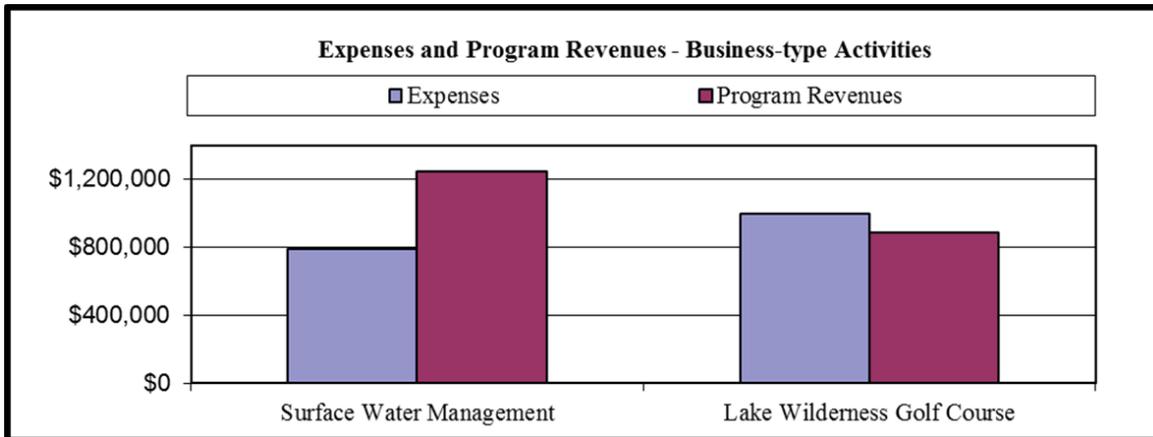
Public safety expenses including: police, jail, and fire marshal, increased \$134,973 or 3.5%. Police services expenses increased by \$116,560 from 2013 to 2014. For police services, the City contracts with King County for 16 police officers, vehicles, equipment, and support costs. The City directly employs one police civilian to assist with administrative services. The police contract gives the City 24-hour coverage, seven days a week, with specifically identified police officers wearing City uniforms and driving police cars that bear the City of Maple Valley insignia. Police contract costs increased \$171,193 from \$3,348,719 to \$3,519,912, \$45,101 of the increase was due to higher workload. Other public safety increases include the costs associated with the distracted driving project for which the City paid \$7,361, this was offset by \$5,500 in revenue from the King County Sheriff's Office. Jail costs decreased \$7,366 from \$186,142 to \$178,776. Other decreases included, a reduction in expense associated with the emergency operation center of \$6,708 and fire marshal services of \$4,655.

Transportation, and utilities and environment expenses, commonly referred to at the City as public works, include development, transportation planning, street maintenance, and waste reduction & recycling. These expenses increased \$1,802,891 or 22.7% for transportation and 11.9% for utilities and

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environment. A significant portion of the increase is due to the increase in depreciation expense for project completed in 2013, \$1,323,580.

Business-type activities. As of December 31, 2014 the City of Maple Valley operated two business-type activities, the Surface Water Management operations and the Lake Wilderness Golf Course operations. The chart below compares program expenses to program revenue.



In the surface water management operation charges for services increased \$79,223 or 6.8% from \$1,167,564 to \$1,246,787. The increase is associated with increased development activity and a population increase for the surface water utility. Operating expenses, not including depreciation, of the surface water management operation decreased \$34,928 or 4.3% from \$821,071 to \$786,143. The decrease is primarily due to the reduction of information technology services allocated to the surface water management fund, in 2013 a work order software was installed to track maintenance work on surface water management facilities, this accounts for \$26,683 of the expenditure decrease from 2013.

The Lake Wilderness Golf Course, an 18-hole golf course with the capability of having a full service restaurant with banquet facilities, was purchased in November 2006 to save it from development. It was hoped that the facility would break-even, but that has not happened yet. The course is managed by Premier Golf Centers, LLC out of Seattle, Washington. The continuing inability of the restaurant operation to break-even led to the formation of a Lake Wilderness Golf Course Task Force in late 2010. The recommendation of the task force was to increase golf fees to fund capital and to reduce the restaurant operations from a full service restaurant to one that caters only to the golfer. In 2014 the Lake Wilderness Golf Course operation had a program revenue increase of \$3,610 or 0.4% from \$887,660 to \$891,270, along with an operating expense increase, not including depreciation, of \$65,604 or 7.1% from \$923,495 to \$989,099. The task force strategy worked to some degree as the City reduced its transfer from other funds from \$91,373 in 2011 to \$32,840 in 2012. The general fund subsidy increased to \$54,187 in 2013 primarily due to a combination of poor weather in September and planned capital expenses throughout the year. The subsidy increased even more in 2014 to \$97,771. The majority of this increase was due to additional inventory expenses of \$26,932 along with additional small tools and minor equipment purchases of \$18,470 for items purchased from the closure of Elk Run Golf Course. There were also additional expenses in other professional services for \$10,763.

Financial Analysis of Government's Funds

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

Governmental funds. The focus of the City of Maple Valley's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City of Maple Valley's financing requirements. In particular, *unassigned fund balances* serves as a useful measure of the City's net resources available for spending at the end of the fiscal year. The General Fund is the only governmental fund with *unassigned fund balance* as other governmental funds have their fund balances restricted for particular purposes mainly to fund capital improvement program. The following table shows the governmental fund balance changes. The beginning amounts below have been restated for the prior period adjustment disclosed in Note 14.

Governmental Funds			
Fund Balances			
	Beginning	Ending	Increase (Decrease)
General Fund	\$ 3,110,122	\$ 3,599,941	\$ 489,819
Transportation Impact Fee Fund	5,641,759	5,486,848	(154,910)
Park Development Fund	2,086,206	2,070,736	(15,470)
Real Estate Excise Tax Fund	2,479,409	3,165,830	686,421
Drug Seizure Fund	4,105	14,335	10,230
Transportation Benefit District Fund	147,956	276,031	128,075
Capital Improvement Plan	19,025	19,025	-
	\$ 13,488,582	\$ 14,632,746	\$ 1,144,163

As noted above in total the governmental fund balances increased \$1,144,163. Of the General Fund balance of \$3,599,941, \$3,105,401 or 86.2% is unassigned. Including the amount assigned for the subsequent year's appropriation of fund balance \$439,368, total assigned and unassigned fund balance is 32.5% of General Fund expenditures. The City's financial policies state that the fund balance of operating funds will be budgeted at at least 16.7% of anticipated operating expenditures. The City interprets this policy to apply in all years in its six year forecast as discussed in the transmittal letter in the Introductory Section.

Other governmental funds accumulate restricted fund balances for designated purposes.

The Transportation Impact Fee Fund accumulates transportation impact fees and other transportation development contributions to pay for the non-City share of transportation improvement projects. Impact fees collected must be spent within a specific time period, currently extended to ten years. In 2014 transportation impact fees were less than expenditures for transportation improvement projects as fees were collected from commercial development and expenditures were combined with existing fund balance to maximize the City's matching fund capabilities from the Real Estate Excise Tax Fund for infrastructure development.

The Park Development Fund accumulates park impact fees, other park development contributions, and shared County revenue for open space and trails. Impact fees collected must be spent within a specific time period, currently extended to ten years. 2014 was the fourth year for the collection of park impact fees and park impact fees were less than expenditures for park improvement projects. Park impact fees

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combined with transfers from the Real Estate Excise Tax Fund and Bond Proceeds Fund were used to fund the parks related capital improvement projects for 2014.

The Real Estate Excise Tax Fund accumulates taxes on the sale of new and existing real property. The taxes provide the City share of funding for both transportation and non-transportation capital improvement projects. The Real Estate Excise Tax Fund provides the City match for funds accumulated in the Transportation Impact Fee Fund and the Park Development Fund. It is also the primary funding source for non-transportation and non-park capital projects. In 2014 real estate excises taxes increased \$351,561, or 43.9% from \$801,022 to \$1,152,583. Transfers-out for capital projects were \$483,869 in 2014.

The Drug Seizure Fund accumulates resources from seizures and impoundment of property for the enforcement of controlled substance, DUI and other applicable laws in accordance with Washington State law. Per the Revised Code of Washington, the cash and property seized must be held and used "exclusively for" such enforcement activity. Fund balance at year-end was \$14,335.

The Transportation Benefit District fund is used to account for the receipt and transfer or disbursement of motor vehicle excise taxes collected by the Maple Valley Transportation Benefit District, a blended component unit of the City of Maple Valley. Fee collection began in the second half of 2013. Transfers of \$215,994 were made during the year. Fund balance at year-end was \$276,031, up \$128,075 from the fund balance of \$147,956 in 2013. Further information regarding the District can be found in the notes to the financial statements.

Proprietary Funds. The City of Maple Valley's *proprietary funds* are two Enterprise Funds, the Surface Water Management Fund and the Lake Wilderness Golf Course Fund, and three Internal Service Funds: the Vehicle Rental Fund, the Central Service Fund, and the Unemployment Trust Fund. The following table identifies the *net position* of the *proprietary funds*.

Proprietary Funds			
Unrestricted Net Position			
	Beginning	Ending	Increase (Decrease)
Surface Water Management Fund	\$ 2,466,079	\$ 2,712,069	\$ 245,990
Vehicle Rental Fund	244,974	331,516	86,541
Central Services Fund	335,045	319,623	(15,422)
Unemployment Trust Fund	55,328	27,303	(28,026)
	\$ 3,101,427	\$ 3,390,511	\$ 289,084

The increase in net position of the Surface Water Management Fund is a result of increased development and connection charges in 2014 as well as a reduction in capital and operating expenditures. Funds were spent in 2006 through 2008 to update the surface water management comprehensive plan. Part of the update involved a review of the City's maintenance and capital plans to ensure compliance with federal and state regulations. Implementation of these plans began in 2009 with new management and maintenance emphasis. Near the end of 2011, the City hired its first full time staff position to manage this function.

The Lake Wilderness Golf Course Fund had no fund balance as the General Fund subsidy is intended to offset any operating deficit from golf course operations.

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The internal service funds accumulate funds for vehicle and equipment replacement and to pay unemployment claims. In 2014, the Vehicle Rental Fund increased its net position. The Vehicle Rental Fund assets are continuing to out-live their replacement rate as the City has only six plus square miles and excellent roads. In 2014, the Central Service Fund decreased its net position. The Central Services Fund is continuing extensive technology equipment replacement that began with the completion of an information technology strategic plan funded in 2006. The Unemployment Trust Fund reduced net position in 2014, it appears in the past two year's this balance has declined at a higher rate than historically. The fund will be watched closely in early 2015, if needed a transfer will be made from the General Fund to cover any claim activity above fund balance.

General Fund Budgetary Highlights

Per State law, budgetary control is at the fund level. Though budgetary control is required at the fund level, it is maintained at the project, organization and object code level. The following table compares the total General Fund original and final budgets to the actual results for the year ended December 31, 2014.

General Fund Budget Amendments						
	Original Budget	Budget Amendment	Final Budget	Actual	% of Budget	
General Fund	\$ 11,069,569	\$ 157,377	\$ 11,226,946	\$ 10,893,939	97%	
General Government						
Finance Software		17,981				
Economic Environment (Community Development)						
Economic Development Comprehensive Plan		94,500				
TRAKiT Software Upgrade		30,000				
Public Safety						
King County Sheriff Animal Control		1,216				
King County Sheriff Distracted Driving Campaign		7,000				
Public Works						
Lake Management Signage		6,680				
		<u>\$ 157,377</u>				

General Fund amendments in 2014 consisted of \$157,377; \$94,500 of this was to fund consultant work on the economic development component of the City's comprehensive plan update. The General Fund's actual expenditures were 97% of its budget, an increase from 94% in 2013. The following summarizes the General Fund's budget and actual comparison.

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**General Fund
Budget to Actual Comparison**

	Final Budget	Actual	Variance from Final Budget	
			Final Budget	Percent
Revenue				
Taxes	\$ 7,996,265	\$ 8,470,230	\$ 473,965	106%
Licenses & Permits	612,683	948,972	336,289	155%
Intergovernmental Revenue	968,072	1,070,688	102,616	111%
Charges for Services	694,159	713,863	19,704	103%
Fines and Forfeitures	91,291	87,858	(3,433)	96%
Miscellaneous Revenue	394,652	410,203	15,551	104%
	\$ 10,757,122	\$ 11,701,814	\$ 944,692	109%
Expenditures				
Current				
General Government	\$ 2,111,809	\$ 1,961,819	\$ 149,990	93%
Community Development	1,202,204	1,060,890	141,314	88%
Human Services	249,774	245,963	3,811	98%
Park & Recreation	1,932,250	1,923,233	9,017	100%
Public Safety	4,520,213	4,269,693	250,520	94%
Public Works	1,210,696	1,425,207	(214,511)	118%
Capital Outlay	-	7,133	(7,133)	-
	\$ 11,226,946	\$ 10,893,939	\$ 333,007	97%

Actual revenues were ahead of budget in most categories, except for fines and forfeitures. The increase in taxes is almost totally attributable to the increase in sales tax revenue. The City generates sales tax from both construction and non-construction activity. Sales tax from construction activity increased by 27.8% in 2014 as development activity increased. Sales tax from all other activities is expected to continue to increase in 2015 with the opening of new stores throughout the year.

Licenses and permits and charges for service are both ahead of budget as development activity increased throughout the year and ended ahead of budget. Residential and commercial permitting activity not only generates building permit revenue but also impact fee revenue. Intergovernmental revenue was above budget with both operational grants and State shared revenue, such as liquor taxes and revenue sharing, being above budget. Fines and forfeitures are below budget as there has been less revenue coming to the City under the new operating agreement with the City of Kent for court services. Miscellaneous revenue is above budget due to increased rental and concession income from the Lake Wilderness Lodge for weddings and other events, this increase is partially offset with lower than anticipated investment income for the City.

The primary reason for actual expenditures being 97% of the final budget, above the 94% from 2013, is the conservative nature of the City's budgeting process. The conservative nature of the City's budgeting process is a result of City policy whereby all new positions are budgeted for a full year and existing positions are budgeted at full benefits even though actual benefit per incumbent may be less than budgeted.

Though not required, the City of Maple Valley prepares annual budgets for all funds. In the City of Maple Valley, most Special Revenue Funds have no expenditure budgets because accumulated restricted funds are budgeted and transferred to other funds to provide resources for their expenditures. If the funds are to be used for operating purposes, they are budgeted and transferred to the General Fund where budget control is maintained. If the funds are to be used for capital purposes, they are

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transferred to the Capital Improvement Plan Fund where budget control is maintained. The exceptions to this general rule are the Drug Seizure and Transportation Benefit District funds. Expenditures could occur within both funds. The budget and actual information for non-General and non-Special Revenue Funds are included after the notes to the financial statements.

Capital Improvement Plan Fund budgets can be maintained on a project basis, but the City of Maple Valley establishes annual budgets by re-appropriating appropriate unspent prior year amounts. Detailed schedule of project life-to-date budget and actual information is shown with the annual budget information. A summary is provided immediately prior to the statistical section.

Economic Factors Affecting the 2015 Budget and the Six-Year Financial Forecast

The City's six-year financial forecast as of December 31, 2014 is included in the 2015 Final Budget and summarized in the Introductory Section of this Comprehensive Annual Financial Report. As stated there, the overall purpose of the forecast is to not over commit the operating expenditure budget within a conservative revenue forecast based on the real inventory of developable land. The forecast is based on the historically successful model of residential development that concludes with the statement that as the new residents begin shopping locally, additional sales tax revenue is generated, eventually leading to the construction of new commercial facilities.

In the last ten years the City has permitted 1,745 single-family residential lots and at December 31, 2014 had an additional 224 lots in inventory with at least preliminary plat approval. A listing of private development activity showing remaining preliminary plat lots is shown in the Statistical Section of this report. In addition to the 224 approved lots, there remains at December 31, 2014 a large number of potentially available un-platted lots. This potential for single-family residential development is in addition to a number of undeveloped non-residential sites. This mix of inventory should provide significant development activity within the six-year financial forecast described below.

With the last step in the single family residential permitting cycle being to increase the demand for commercial development, that happened in a big way on April 14, 2011 when ground was broken for a 250,000 square foot thirteen building commercial complex. The complex will be built-out over a couple of years, but the anchor tenant, Fred Meyer opened in May 2012. In addition to this development, the City has a number of other large parcels that are prime for development. To assist in this effort the City is working with a revamped Economic Development Committee to bring a greater level of commercial expertise to the City.

With revenue opportunities identified above related to single family residential and commercial development and future annexation combined with the City's conservative budgeting policies and practices and a six-year financial forecast, funding should be available to meet the needs of a growing residential community, but the City must proceed cautiously.

Though the General Fund seems to be financially sound with diverse revenue sources and potential for growth, the Capital Improvement Plan Fund is somewhat restricted. Fewer building permits have provided less transportation and park impact fee revenue and the sluggish housing market has produced a lower level of real estate excise taxes than provided in previous years. It is expected the Transportation Benefit District will provide much needed funding for some capital improvements throughout the City. These combined revenue sources including investment earnings produced \$2,667,000 in 2014 from which \$576,508 in debt service was paid leaving on an annual basis only about \$2 million for capital improvements, not very much for a young and growing City. Surely the

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economic condition will improve in the years to come. In the meantime the City may need to settle for a smaller capital improvement program as it encourages the development of its commercial properties.

Though the 2015 budget was developed with caution and the six-year forecast does not expect significant economic growth, some modest growth in both the residential and commercial sector is forecasted. As in the past the City will monitor the finances with monthly financial reporting and quarterly presentations to the City Council. This effort should allow the City to meet the needs of the community without undue strain on City staff or the community.

City of Maple Valley
Statement of Net Position
December 31, 2014

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and Cash Equivalents	\$ 10,725,426	\$ 1,933,338	\$ 12,658,764
Investments	4,551,375	820,419	5,371,794
Receivables (net of allowance for uncollectibles):			
Taxes	898,136	-	898,136
Accounts	77,764	79,962	157,726
Accrued Interest	54,647	-	54,647
Intergovernmental Receivable	192,200	230	192,430
Inventory	-	56,790	56,790
Prepaid Items	56,855	826	57,681
Capital Assets Not Being Depreciated:			
Land	212,355,057	13,689,066	226,044,123
Intangibles-Easement	314,018	-	314,018
Construction in Progress	3,930,934	-	3,930,934
Capital Assets, Net of Accumulated Depreciation:			
Buildings	8,256,693	845,828	9,102,521
Machinery, Equipment and Vehicles	393,179	22,983	416,162
Intangibles-Software	88,126	-	88,126
Infrastructure	144,677,354	-	144,677,354
Other Capital Assets	46,009	1,506,023	1,552,031
Total Assets	386,617,770	18,955,465	405,573,235
LIABILITIES			
Accounts Payable	311,123	86,016	397,139
Payroll Payable	135,822	3,513	139,335
Intergovernmental Payable	168,868	60,459	229,327
Deposits and Unearned Revenue	623,469	28,666	652,135
Compensated Absences Payable	131,332	843	132,174
Accrued Interest Payable	17,412	-	17,412
Noncurrent Liabilities:			
Contracts & Loans - Due within one year	184,621	-	184,621
General Obligation Bonds - Due within one year	585,000	-	585,000
Contracts & Loans - Due after one year	1,661,589	-	1,661,589
General Obligation Bonds - Due after one year	3,765,000	-	3,765,000
Total Liabilities	7,584,235	179,496	7,763,731
NET POSITION			
Net Investment in Capital Assets	363,865,160	16,063,900	379,929,060
Restricted for:			
Street Capital Projects	5,762,880	-	5,762,880
Park Capital Projects	2,070,736	-	2,070,736
General Capital Projects	3,165,830	-	3,165,830
Unrestricted	4,168,930	2,712,069	6,880,999
Total Net Position	\$ 379,033,535	\$ 18,775,969	\$ 397,809,504

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

City of Maple Valley
Statement of Activities
For the Year Ended December 31, 2014

Functions/Programs	Expenses	Program Revenues		
		Charges for Service (1)	Grants and Contributions	
			Operating	Capital
GOVERNMENTAL ACTIVITIES				
General Government	\$ 2,261,522	\$ 11,694	\$ -	\$ -
Economic Environment	1,086,990	741,068	-	-
Mental and Physical Health	30,000	-	-	-
Culture and Recreation	2,485,163	1,162,231	-	-
Public Safety	4,016,691	153,696	134,854	-
Transportation	9,668,319	808,864	581,841	6,394,403
Utilities and Environment	153,591	-	-	-
Interest on Long-term Debt	172,135	-	-	-
Total Governmental Activities	19,874,413	2,877,553	716,695	6,394,403
BUSINESS-TYPE ACTIVITIES				
Surface Water Management	825,442	1,246,787	-	3,755,899
Lake Wilderness Golf Course	1,059,219	891,270	-	-
Total Business-type Activities	1,884,661	2,138,057	-	3,755,899
Total Primary Government	21,759,074	5,015,610	716,695	10,150,303

General Revenues

- Taxes
 - Property Taxes
 - Sales Taxes
 - Utility Taxes
 - Excise Taxes in Lieu of Property Tax
 - Other Taxes (Real Estate Excise)
 - Business and Occupation (Gambling) Taxes
 - Franchise Fees (Taxes)
- Intergovernmental Revenue not restricted to specific programs
 - State Shared Revenue
- Miscellaneous Revenue
 - Investment Earnings
 - Other Miscellaneous Revenue
 - Insurance Recoveries

Transfers

Total General Revenues and Transfers

Change in Net Position

Net Position - Beginning

Prior Period Adjustment (Note 14)

Net Position - Ending

(1) Includes other program revenue except grants and contributions

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

Net (Expense) Revenue and Changes in Net Position

Governmental Activities	Business-type Activities	Total
\$ (2,249,827)	\$ -	\$ (2,249,827)
(345,922)	-	(345,922)
(30,000)	-	(30,000)
(1,322,932)	-	(1,322,932)
(3,728,141)	-	(3,728,141)
(1,883,212)	-	(1,883,212)
(153,591)	-	(153,591)
(172,135)	-	(172,135)
(9,885,761)	-	(9,885,761)
-	4,177,244	4,177,244
-	(167,949)	(167,949)
-	4,009,295	4,009,295
(9,885,761)	4,009,295	(5,876,467)
3,489,468	-	3,489,468
3,036,207	-	3,036,207
1,956,726	-	1,956,726
345,219	-	345,219
1,152,583	-	1,152,583
51,873	-	51,873
344,061	-	344,061
353,994	-	353,994
58,850	13,249	72,099
15,110	83	15,192
8,269	-	8,269
130,156	(130,156)	-
10,942,516	(116,825)	10,825,691
1,056,755	3,892,469	4,949,224
377,981,405	14,883,500	392,864,905
(4,625)	-	(4,625)
\$ 379,033,535	\$ 18,775,969	\$ 397,809,504

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

**City of Maple Valley
Balance Sheet
Governmental Funds
December 31, 2014**

	General	Special Revenue Transportation Development
ASSETS		
Cash and Cash Equivalents	\$ 2,259,550	\$ 4,022,742
Investments	958,849	1,707,066
Receivables (net of allowance for uncollectibles):		
Taxes	898,136	-
Accounts	77,764	-
Accrued Interest	54,647	-
Intergovernmental Receivable	78,267	-
Prepaid Items	55,171	-
Total Assets	\$ 4,382,383	\$ 5,729,807
LIABILITIES		
Liabilities		
Accounts Payable	\$ 109,615	\$ -
Payroll Payable	125,073	-
Intergovernmental Payable	167,244	-
Deposits Payable	263,749	-
Unearned Revenue	116,761	242,959
Total Liabilities	782,442	242,959
FUND BALANCES		
Nonspendable:		
Prepaid Items	55,171	-
Restricted:		
Street Capital Projects	-	5,486,848
Park Capital Projects	-	-
1st .25% Capital Purposes	-	-
2nd .25% Capital Purposes	-	-
Drug Investigations	-	-
Transportation Infrastructure	-	-
Committed:		
Public Art Purposes	-	-
Assigned:		
Subsequent year's budget appropriation of fund balance	439,368	-
Unassigned	3,105,401	-
Total Fund Balances	3,599,941	5,486,848
Total Liabilities and Fund Balances	\$ 4,382,383	\$ 5,729,807

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

Special Revenue				Capital Projects	Total
Park Development	Real Estate Excise Tax	Drug Seizure	Transportation Benefit District	Capital Improvement Plan	Governmental Funds
\$ 1,453,807	\$ 2,160,783	\$ 10,064	\$ 175,665	\$ 140,599	\$ 10,223,210
616,929	916,937	4,271	74,544	59,664	4,338,258
-	-	-	-	-	898,136
-	-	-	-	-	77,764
-	-	-	-	-	54,647
-	88,110	-	25,823	-	192,200
-	-	-	-	-	55,171
\$ 2,070,736	\$ 3,165,830	\$ 14,335	\$ 276,031	\$ 200,263	\$ 15,839,386
\$ -	\$ -	\$ -	\$ -	\$ 179,623	\$ 289,238
-	-	-	-	-	125,073
-	-	-	-	1,616	168,860
-	-	-	-	-	263,749
-	-	-	-	-	359,720
-	-	-	-	181,238	1,206,640
-	-	-	-	-	55,171
-	-	-	-	-	5,486,848
2,070,736	-	-	-	-	2,070,736
-	1,360,030	-	-	-	1,360,030
-	1,805,800	-	-	-	1,805,800
-	-	14,335	-	-	14,335
-	-	-	276,031	-	276,031
-	-	-	-	19,025	19,025
-	-	-	-	-	439,368
-	-	-	-	-	3,105,401
2,070,736	3,165,830	14,335	276,031	19,025	14,632,746
\$ 2,070,736	\$ 3,165,830	\$ 14,335	\$ 276,031	\$ 200,263	\$ 15,839,386

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

City of Maple Valley
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Position
December 31, 2014

Total Governmental Fund Balances as reported on the Balance Sheet **\$ 14,632,746**

Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. (Note 6) These assets consist of:

Land	\$ 212,355,057	
Intangibles-Easement	314,018	
Construction in progress	3,930,934	
Subtotal: Non-depreciable capital assets	216,600,008	
Buildings	10,402,376	
Leasehold Improvements	76,681	
Machinery, Equipment and Vehicles	1,198,047	
Intangibles-Software	88,126	
Infrastructure	268,718,645	
Less: Accumulated Depreciation	(127,022,513)	
Subtotal: Depreciable capital assets	153,461,361	
Total capital assets		370,061,369

Some liabilities are not due and payable in the current period and therefore are not reported in the funds. (Notes 7 and 8)

Accrued Interest on General Obligation Bonds Payable	(17,412)	
Compensated Absences	(125,400)	
Contracts, Loans, and Bonds Payable	(6,196,210)	
	(6,339,021)	(6,339,021)

Restricted net assets of internal service funds are included in governmental activities in the Statement of Net Position. 678,442

Net Assets of Governmental Activities as reported on the Statement of Net Position **\$ 379,033,535**

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

City of Maple Valley
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2014

	<u>Special Revenue</u>	
	<u>General</u>	<u>Transportation Development</u>
REVENUES		
Taxes		
Property	\$ 3,425,424	\$ -
Sales	3,036,207	-
Utility	1,956,726	-
Business and Occupation (Gambling) Taxes	51,873	-
Excise Taxes in Lieu of Property Tax	-	-
Other Taxes (Real Estate Excise)	-	-
Licenses & Permits	948,972	-
Intergovernmental Revenue	1,070,688	-
Charges for Service	713,863	566,475
Fines & Forfeitures	87,858	-
Miscellaneous Revenue	410,203	40,360
Total Revenues	11,701,814	606,835
EXPENDITURES		
Current		
General Government	2,258,726	-
Economic Environment	1,086,990	-
Mental and Physical Health	30,000	-
Culture and Recreation	2,139,196	-
Public Safety	4,013,701	-
Transportation	1,204,601	-
Utilities and Environment	153,591	-
Capital Outlay	7,133	-
Debt Service		
Principal	-	-
Interest and Other Fees	-	-
Total Expenditures	10,893,939	-
Excess (deficiency) of revenues over (under) expenditures	807,875	606,835
Other Financing Sources (Uses)		
General Obligation Bond Proceeds	-	-
Insurance Recoveries	8,269	-
Transfers In	67,015	-
Transfers Out	(393,341)	(761,745)
Total Other Financing Sources (Uses)	(318,057)	(761,745)
Net Change in Fund Balances	489,819	(154,910)
Fund Balances, January 1	3,110,122	5,646,384
Prior Period Adjustment (Note 14)	-	(4,625)
Fund Balances, December 31	\$ 3,599,941	\$ 5,486,848

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

Special Revenue					Capital Projects	Total
Park Development	Real Estate Excise Tax	Drug Seizure	Transportation Benefit District	Bond Proceeds	Capital Improvement Plan	Governmental Funds
\$ 64,044	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,489,468
-	-	-	-	-	-	3,036,207
-	-	-	-	-	-	1,956,726
-	-	-	-	-	-	51,873
-	-	-	345,219	-	-	345,219
-	1,152,583	-	-	-	-	1,152,583
-	-	-	-	-	-	948,972
-	-	-	-	-	41,864	1,112,553
465,426	-	-	-	-	-	1,745,764
-	-	-	-	-	-	87,858
13,837	17,707	11,953	1,350	6	45,212	540,626
543,307	1,170,289	11,953	346,569	6	87,076	14,467,849
-	-	-	-	-	-	2,258,726
-	-	-	-	-	-	1,086,990
-	-	-	-	-	-	30,000
-	-	-	-	-	34,326	2,173,522
-	-	1,724	-	-	-	4,015,425
-	-	-	2,500	-	332,228	1,539,329
-	-	-	-	-	-	153,591
-	-	-	-	-	2,825,310	2,832,443
-	-	-	-	-	704,621	704,621
-	-	-	-	26,200	171,263	197,463
-	-	1,724	2,500	26,200	4,067,749	14,992,111
543,307	1,170,289	10,230	344,069	(26,194)	(3,980,672)	(524,262)
-	-	-	-	1,530,000	-	1,530,000
-	-	-	-	-	-	8,269
-	-	-	-	-	3,980,672	4,047,687
(558,777)	(483,869)	-	(215,994)	(1,503,806)	-	(3,917,531)
(558,777)	(483,869)	-	(215,994)	26,194	3,980,672	1,668,425
(15,470)	686,421	10,230	128,075	-	-	1,144,163
2,086,206	2,479,409	4,105	147,956	-	19,025	13,493,207
-	-	-	-	-	-	(4,625)
\$ 2,070,736	\$ 3,165,830	\$ 14,335	\$ 276,031	\$ -	\$ 19,025	\$ 14,632,746

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

City of Maple Valley
Reconciliation of the Statement of Revenues, Expenditures, and
Changes in Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended December 31, 2014

Amounts reported for governmental activities in the Statement of Activities are different because:

Net Change in Fund Balances - total Governmental Funds **\$ 1,144,163**

In the Statement of Revenues, Expenditures, and Changes in Fund Balances, non-cash contributions of capital assets from entities outside the government are not reported. In the Statement of Activities, the fair value of these assets is recorded as a contribution.

Developer Contributions 6,307,327

In the Statement of Revenues, Expenditures, and Changes in Fund Balances, Governmental Funds report capital outlays as expenditures. In the Statement of Activities, the cost of these assets is allocated over their estimated useful lives as depreciation expense.

Capital Outlay 2,832,443

	Depreciation		
General Government	\$ 7,668		
Culture and Recreation	285,442		
Public Safety	1,266		
Transportation	8,128,990		
Internal Service Funds	127,201		
		(8,550,567)	

In the Statement of Revenues, Expenditures, and Changes in Fund Balances, Governmental Funds recognize that the issuance of long-term debt provides current financial resources, while the repayment of principal of long-term debt consumes current financial resources. In the Statement of Activities these changes in long-term liabilities do not have any effect on net assets.

Issuance of 2014 Councilmanic General Obligation Bond	(1,530,000)		
Increase in Accrued Interest on Long-term Debt	(872)		
Increase in Compensated Absences	(5,258)		
Repayment of Long-term Debt	704,621		
		(831,509)	

Internal service funds are used by the City to charge the costs of vehicle rental, central services, and unemployment insurance to individual funds. The net revenue of certain activities in internal service funds is reported with governmental activities.

Internal Service Funds - Operating Income (not including depreciation)	137,331		
Internal Service Funds - Non-operating Income			
Investment Earnings	4,295		
Gain/(Loss) on Retirement of Capital Assets	13,270		
		154,897	

Change in Net Position of Governmental Activities **\$ 1,056,755**

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

City of Maple Valley
General Fund
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (GAAP Basis)
For the Year Ended December 31, 2014

Page 1 of 3

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Taxes				
Property Taxes	\$ 3,417,332	\$ 3,417,332	\$ 3,425,424	\$ 8,092
Sales Taxes				
Locally Generated	2,084,551	2,084,551	2,468,629	384,078
.1% Criminal Justice	508,701	508,701	567,579	58,878
Utility Taxes	1,946,291	1,946,291	1,956,726	10,435
Gambling Taxes	39,390	39,390	51,873	12,483
Total Taxes	7,996,265	7,996,265	8,470,230	473,965
Licenses & Permits				
Special Licenses	6,565	960	860	(100)
Franchise Fees	336,093	336,092	401,445	65,353
Development Permits	270,025	270,026	539,745	269,719
Business and Transient Sales Licenses	-	5,605	6,922	1,317
Total Licenses & Permits	612,683	612,683	948,972	336,289
Intergovernmental Revenue				
Federal and State Grants	114,391	60,392	50,509	(9,883)
State Shared Revenue	847,000	847,000	919,699	72,699
Local Grants & Entitlements	-	60,680	100,481	39,801
Total Intergovernmental Revenue	961,391	968,072	1,070,688	102,616
Charges for Service				
Development Charges	340,786	340,286	353,719	13,433
Miscellaneous Charges	345,792	353,873	360,145	6,272
Total Charges for Service	686,578	694,159	713,863	19,704
Fines & Forfeitures	91,289	91,291	87,858	(3,433)
Miscellaneous Revenue				
Investment Earnings	52,435	53,287	36,955	(16,332)
Rents, Leases, and Concessions	341,335	306,950	338,268	31,318
Other Miscellaneous Revenue	1,465	34,415	34,980	565
Total Miscellaneous Revenue	395,235	394,652	410,203	15,551
Total Revenues	\$ 10,743,441	\$ 10,757,122	\$ 11,701,814	\$ 944,692

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

City of Maple Valley
General Fund
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (GAAP Basis)
For the Year Ended December 31, 2014

Page 2 of 3

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
EXPENDITURES				
General Government				
City Council	\$ 128,662	\$ 128,660	\$ 116,820	\$ 11,840
City Manager	522,256	522,256	483,233	39,023
Human Resources	133,732	133,732	126,642	7,090
City Clerk	552,268	552,268	495,675	56,593
City Attorney	176,925	176,925	164,380	12,545
Finance	579,987	597,968	575,070	22,898
Total General Government	2,093,830	2,111,809	1,961,819	149,990
Community Development	1,077,704	1,202,204	1,060,890	141,314
Human Services	249,774	249,774	245,963	3,811
Parks and Recreation				
Administration	148,610	148,609	292,141	(143,532)
Parks Maintenance	407,519	407,518	361,865	45,653
Lake Wilderness Lodge	506,190	506,190	467,062	39,128
Recreation and Events	809,267	809,269	744,528	64,741
Capital	-	-	7,133	(7,133)
Community Service Agencies	60,662	60,664	57,637	3,027
Total Parks	1,932,248	1,932,250	1,930,366	1,884
Public Safety				
Police	3,888,113	3,896,329	3,779,769	116,560
Jail	226,100	226,100	178,776	47,324
Municipal Court	375,950	375,950	296,907	79,043
Emergency Operations Center	21,833	21,834	14,241	7,593
Total Public Safety	4,511,996	4,520,213	4,269,693	250,520
Public Works				
Administration	229,032	229,033	467,263	(238,230)
Transportation Planning	19,234	19,234	48,836	(29,602)
Street Maintenance	690,427	690,425	688,502	1,923
Waste Reduction & Recycling	152,996	152,996	153,591	(595)
Lake Management	112,328	119,008	67,015	51,993
Total Public Works	1,204,017	1,210,696	1,425,207	(214,511)
Total Expenditures	\$ 11,069,569	\$ 11,226,946	\$ 10,893,939	\$ 333,007

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

City of Maple Valley
General Fund
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (GAAP Basis)
For the Year Ended December 31, 2014

Page 3 of 3

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues over (under) Expenditures	\$ (326,128)	\$ (469,824)	\$ 807,875	\$ 1,277,699
Other Financing Sources (Uses)				
Insurance Recoveries	-	-	8,269	8,269
Transfer in from Surface Water Management Fund	112,328	112,328	67,015	(45,313)
Transfer out to Capital Improvement Plan Fund	(361,644)	(362,220)	(295,570)	66,650
Transfer out to Lake Wilderness Golf Course	(24,942)	(80,000)	(97,771)	(17,771)
Total Other Financing Sources (Uses)	(274,258)	(329,892)	(318,057)	11,835
Net Change in Fund Balances	(600,386)	(799,716)	489,819	1,289,535
Fund Balance, January 1	2,692,160	3,110,122	3,110,122	0
Fund Balance, December 31	\$ 2,091,774	\$ 2,310,406	\$ 3,599,941	\$ 1,289,535

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

City of Maple Valley
Transportation Development Fund
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (GAAP Basis)
For the Year Ended December 31, 2014

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Charges for Services				
Transportation Impact Fees	\$ 491,574	\$ 491,574	\$ 566,475	\$ 74,901
Total Charges for Services	491,574	491,574	566,475	74,901
Miscellaneous Revenue				
Investment Earnings	48,687	48,687	40,360	(8,327)
Total Miscellaneous Revenue	48,687	48,687	40,360	(8,327)
Total Revenues	540,261	540,261	606,835	66,574
Other Financing Sources (Uses)				
Transfer out to Capital Improvement Plan Fund	(2,335,100)	(2,837,535)	(761,745)	2,075,790
Total Other Financing Sources (Uses)	(2,335,100)	(2,837,535)	(761,745)	2,075,790
Net Change in Fund Balances	(1,794,839)	(2,297,274)	(154,910)	2,142,364
Fund Balance, January 1	5,214,738	5,646,384	5,646,384	(0)
Prior Period Adjustment (Note 14)	-	-	(4,625)	(4,625)
Fund Balance, December 31	\$ 3,419,899	\$ 3,349,110	\$ 5,486,848	\$ 2,137,738

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

City of Maple Valley
Park Development Fund
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (GAAP Basis)
For the Year Ended December 31, 2014

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Taxes Revenue				
King County Open Space & Trails Levy	\$ 45,000	\$ 45,000	\$ 64,044	\$ 19,044
Total Taxes Revenue	45,000	45,000	64,044	19,044
Charges for Services				
Park Impact Fees	225,439	225,439	465,426	239,987
Total Charges for Services	225,439	225,439	465,426	239,987
Miscellaneous Revenue				
Investment Earnings	16,018	16,018	13,837	(2,182)
Total Miscellaneous Revenue	16,018	16,018	13,837	(2,182)
Total Revenues	286,457	286,457	543,307	256,850
Other Financing Sources (Uses)				
Transfer out to Capital Improvement Plan Fund	(854,834)	(1,226,411)	(558,777)	667,635
Total Other Financing Sources (Uses)	(854,834)	(1,226,411)	(558,777)	667,635
Net Change in Fund Balances	(568,377)	(939,954)	(15,470)	924,484
Fund Balance, January 1	2,067,361	2,086,206	2,086,206	(0)
Fund Balance, December 31	\$ 1,498,984	\$ 1,146,252	\$ 2,070,736	\$ 924,484

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

City of Maple Valley
Real Estate Excise Tax Fund
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (GAAP Basis)
For the Year Ended December 31, 2014

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Taxes				
Real Estate Excise Tax	\$ 878,778	\$ 878,778	\$ 1,152,583	\$ 273,805
Total Taxes	878,778	878,778	1,152,583	273,805
Miscellaneous Revenue				
Investment Earnings	17,674	17,706	17,707	1
Other Miscellaneous Revenue	32	-	-	-
Total Miscellaneous Revenue	17,706	17,706	17,707	1
Total Revenues	896,484	896,484	1,170,289	273,805
Other Financing Sources (Uses)				
Transfer out to Capital Improvement Plan Fund	(1,135,573)	(1,663,664)	(483,869)	1,179,795
Total Other Financing Sources (Uses)	(1,135,573)	(1,663,664)	(483,869)	1,179,795
Net Change in Fund Balances	(239,089)	(767,180)	686,421	1,453,601
Fund Balance, January 1	2,362,747	2,479,409	2,479,409	0
Fund Balance, December 31	\$ 2,123,658	\$ 1,712,229	\$ 3,165,830	\$ 1,453,601

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

City of Maple Valley
Drug Seizure Fund
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (GAAP Basis)
For the Year Ended December 31, 2014

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Miscellaneous Revenue				
Investment Earnings	\$ 1	\$ 1	\$ 34	\$ 33
Confiscated and Forfeited Property	2,000	2,000	11,919	9,919
Total Miscellaneous Revenue	2,001	2,001	11,953	9,952
Total Revenues	2,001	2,001	11,953	9,952
EXPENDITURES				
Public Safety				
Operating	4,000	4,000	1,724	2,276
Total Expenditures	4,000	4,000	1,724	2,276
Revenues over (under) Expenditures	(1,999)	(1,999)	10,230	12,229
Net Change in Fund Balances	(1,999)	(1,999)	10,230	12,229
Fund Balance, January 1	5,152	4,105	4,105	(0)
Fund Balance, December 31	\$ 3,153	\$ 2,106	\$ 14,335	\$ 12,229

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

City of Maple Valley
Transportation Benefit District Fund
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (GAAP Basis)
For the Year Ended December 31, 2014

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Taxes				
Transportation Benefit District Vehicle Fees	\$ 300,000	\$ 300,000	\$ 345,219	\$ 45,219
Total Taxes	300,000	300,000	345,219	45,219
Miscellaneous Revenue				
Investment Earnings	100	100	1,350	1,250
Total Miscellaneous Revenue	100	100	1,350	1,250
Total Revenues	300,100	300,100	346,569	46,469
EXPENDITURES				
Public Works				
Transportation				
Operating Expenditures	-	2,500	2,500	-
Total Expenditures	-	2,500	2,500	-
Revenues over (under) Expenditures	300,100	297,600	344,069	46,469
Other Financing Sources (Uses)				
Transfer out to Capital Improvement Plan Fund	(300,000)	(300,000)	(215,994)	84,006
Total Other Financing Sources (Uses)	(300,000)	(300,000)	(215,994)	84,006
Net Change in Fund Balances	100	(2,400)	128,075	130,475
Fund Balance, January 1	165,100	147,956	147,956	0
Fund Balance, December 31	\$ 165,200	\$ 145,556	\$ 276,031	\$ 130,475

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

City of Maple Valley
Bond Proceeds Fund
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
For the Year Ended December 31, 2014

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Miscellaneous Revenue				
Investment Earnings	\$ -	\$ -	\$ 6	\$ 6
Total Miscellaneous Revenue	<u>-</u>	<u>-</u>	<u>6</u>	<u>6</u>
EXPENDITURES				
Parks and Community Services				
Parks & Recreation				
Operating Expenditures	-	26,200	26,200	-
Total Expenditures	<u>-</u>	<u>26,200</u>	<u>26,200</u>	<u>-</u>
Revenues over (under) Expenditures	<u>-</u>	<u>(26,200)</u>	<u>(26,194)</u>	<u>6</u>
Other Financing Sources (Uses)				
Councilmanic Bond Proceeds	1,500,000	1,500,000	1,530,000	30,000
Voted GO Bond Proceeds	8,600,000	8,600,000	-	(8,600,000)
Transfer out to Capital Improvement Plan Fund	(10,100,000)	(10,103,806)	(1,503,806)	8,600,000
Total Other Financing Sources (Uses)	<u>-</u>	<u>(3,806)</u>	<u>26,194</u>	<u>30,000</u>
Net Change in Fund Balances	<u>-</u>	<u>(30,006)</u>	<u>-</u>	<u>30,006</u>
Fund Balance, January 1	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balance, December 31	<u>\$ -</u>	<u>\$ (30,006)</u>	<u>\$ -</u>	<u>\$ 30,006</u>

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

City of Maple Valley
Statement of Net Position
Proprietary Funds
December 31, 2014

	Business-type Activities			Governmental
	Surface Water Management	Lake Wilderness Golf Course	Total Enterprise Funds	Internal Service Funds
ASSETS				
Current Assets:				
Cash and Cash Equivalents	\$ 1,909,212	\$ 24,126	\$ 1,933,338	\$ 502,215
Investments	810,181	10,238	820,419	213,117
Receivables (net of uncollectibles)				
Customer Accounts	79,962	-	79,962	-
Due from Other Governments	230	-	230	-
Inventory	-	56,790	56,790	-
Prepaid Items	826	-	826	1,683
Total Current Assets	2,800,410	91,154	2,891,565	717,016
Noncurrent Assets:				
Capital Assets:				
Land	11,408,849	2,280,218	13,689,066	-
Construction in Progress	-	-	-	25,911
Buildings	18,245	1,040,000	1,058,245	-
Machinery, Equipment and Vehicles	-	234,822	234,822	1,019,009
Intangibles-Software	-	-	-	257,935
Other Capital Assets	1,128,379	1,013,977	2,142,356	-
Less: Accumulated Depreciation	(370,707)	(689,883)	(1,060,590)	(853,307)
Total Noncurrent Assets	12,184,765	3,879,135	16,063,900	449,548
Total Assets	14,985,176	3,970,289	18,955,465	1,166,564
LIABILITIES				
Current Liabilities:				
Accounts Payable	26,872	59,144	86,016	21,885
Payroll Payable	3,513	-	3,513	10,749
Due to Other Governments	57,114	3,344	60,459	8
Deposits and Deferred Revenue	-	28,666	28,666	-
Compensated Absences Payable	843	-	843	5,932
Total Current Liabilities	88,342	91,154	179,496	38,574
NET POSITION				
Net Investment in Capital Assets	12,184,765	3,879,135	16,063,900	449,548
Unrestricted	2,712,069	-	2,712,069	678,442
Total Net Position	\$ 14,896,834	\$ 3,879,135	\$ 18,775,969	\$ 1,127,990

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

City of Maple Valley
Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Funds
For the Year Ended December 31, 2014

	Business-type Activities			Governmental
	Surface Water Management	Lake Wilderness Golf Course	Total Enterprise Funds	Internal Service Funds
Operating Revenues				
Charges for Service				
Surface Water Management Fees	\$ 1,234,957	\$ -	\$ 1,234,957	\$ -
Golf Operations	-	638,380	638,380	-
Restaurant Operations	-	252,889	252,889	-
Other Services	11,830	-	11,830	1,335,172
Total Operating Revenues	1,246,787	891,270	2,138,057	1,335,172
Operating Expenses				
Cost of Services	786,143	989,099	1,775,242	1,197,840
Depreciation	39,300	70,120	109,419	127,201
Total Operating Expenses	825,442	1,059,219	1,884,661	1,325,041
Operating Income	421,345	(167,949)	253,395	10,130
Nonoperating Revenue (Expense)				
Investment Earnings (Expense)	13,272	(24)	13,249	4,295
Other Interest Earnings	-	83	83	-
Gain (Loss) on Retirement of Capital Assets	-	-	-	13,270
Total Nonoperating Revenue (Expense)	13,272	59	13,331	17,565
Income before Contributions and Transfers	434,617	(167,890)	266,726	27,696
Contributions and Transfers				
Capital Contributions from Developers	3,755,899	-	3,755,899	-
Transfers in (out)	(227,927)	97,771	(130,156)	-
Total Contributions and Transfers	3,527,972	97,771	3,625,743	-
Change in Net Position	3,962,589	(70,120)	3,892,469	27,696
Total Net Position - January 1	10,934,245	3,949,255	14,883,500	1,100,294
Total Net Position - December 31	\$ 14,896,834	\$ 3,879,135	\$ 18,775,969	\$ 1,127,990

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

**City of Maple Valley
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2014**

Page 1 of 2

	Business-type Activities			Governmental Activities
	Surface Water Management	Lake Wilderness Golf Course	Total Enterprise Funds	Internal Service Funds
Cash Flows from Operating Activities				
Cash Received from Customers	\$ 1,220,890	\$ 895,776	\$ 2,116,666	\$ 1,335,172
Cash Paid to Suppliers for Goods and Services	(743,690)	(989,506)	(1,733,196)	(1,199,522)
Net Cash Flows from Operating Activities	477,200	(93,730)	383,469	135,649
Cash Flows from Non-Capital Financing Activities				
Transfers to (from) Other Funds	(227,927)	97,771	(130,156)	-
Net Cash Flows from Non-Capital Financing Activities	(227,927)	97,771	(130,156)	-
Cash Flows from Capital and Related Financing Activities				
Capital Assets Purchased for Own Use	-	-	-	(118,964)
Proceeds from the Sale of Capital Assets	-	-	-	20,432
Financing Activities	-	-	-	(98,532)
Cash Flows from Investing Activities				
Purchase of Investments	-	-	-	47,328
Proceeds from Investment Maturities	186,809	2,043	188,853	13,033
Interest on Investments	13,272	59	13,331	4,295
Net Cash Flows from Investing Activities	200,081	2,102	202,184	64,656
Net Change in Cash and Cash Equivalents	449,354	6,143	455,497	101,772
Cash and Cash Equivalents, January 1	1,459,858	17,983	1,477,841	400,442
Cash and Cash Equivalents, December 31	\$ 1,909,212	\$ 24,126	\$ 1,933,338	\$ 502,215

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

**City of Maple Valley
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2014**

Page 2 of 2

	<u>Business-type Activities</u>			<u>Governmental Activities</u>
	<u>Surface Water Management</u>	<u>Lake Wilderness Golf Course</u>	<u>Total Enterprise Funds</u>	<u>Internal Service Funds</u>
Reconciliation of Operating Income to Net Cash Provided by (Used For) Operating Activities				
Operating Income	\$ 421,345	\$ (167,949)	\$ 253,395	\$ 10,130
Adjustments to Reconcile Operating Income to Net Cash Provided:				
Depreciation Expense	39,300	70,120	109,419	127,201
Change in Receivables (net of uncollectibles)	(10,430)	-	(10,430)	-
Change in Due from Other Governments	12,248	-	12,248	-
Change in Inventory	-	5,521	5,521	-
Change in Prepaid Items	(589)	-	(589)	(1,416)
Change in Accounts Payable	(13,132)	(962)	(14,094)	(7,434)
Change in Payroll Payable	73	-	73	1,227
Change in Due to Other Governments	54,668	555	55,224	8
Change in Contracts Payable	-	-	-	5,932
Changes in Deposits and Deferred Revenue	(27,126)	(1,014)	(28,140)	-
Changes in Compensated Absences Payable	843	-	843	-
Net Cash Flows from Operating Activities	<u>\$ 477,200</u>	<u>\$ (93,730)</u>	<u>\$ 383,469</u>	<u>\$ 135,649</u>
Non Cash Investing, Capital and Financing Activities				
Capital Contributions from Developers	\$ 3,755,899	\$ -	\$ 3,755,899	\$ -
Retirement of Internal Service Fund Capital Assets	-	-	-	(7,161)
Total Non Cash Investing, Capital and Financing	<u>\$ 3,755,899</u>	<u>\$ -</u>	<u>\$ 3,755,899</u>	<u>\$ (7,161)</u>

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. REPORTING ENTITY

The City of Maple Valley is a municipal corporation that operates under the Council / Manager form of government. The City has a non-partisan elected seven-member council that chooses from among its members a Mayor and Deputy Mayor. The Council appoints a professional City Manager. The accompanying financial statements of the City of Maple Valley have been prepared in conformity with generally accepted accounting principles (GAAP). The significant accounting policies applicable to the City of Maple Valley are described below.

The City's comprehensive annual financial report (CAFR) includes all activity for which the City of Maple Valley is considered to be financially accountable. Financial accountability is determined based on budget adoption, spending authority, taxing authority, and outstanding debt secured by revenues or general obligations of the City. There are no non-reported activities meeting any of these criteria.

Blended Component Unit - The Maple Valley Transportation Benefit District was formed by the City Council on November 26, 2012. The purpose of the District is to fund the maintenance, improvement and preservation of existing transportation facilities. The City of Maple Valley Council appointed itself to act as the seven-member governance board of the District. Although it is legally separate from the City of Maple Valley, the Maple Valley Transportation Benefit District is reported as if it were part of the primary government as a Special Revenue Fund because of its governance structure and because its sole purpose is to finance and construct City of Maple Valley streets. The District is funded by a \$20 excise tax on all vehicles registered within the City of Maple Valley. Under contract with the Washington State Department of Licensing, the vehicle excise taxes began collection in July 2013. Separately issued financial statements are available from the City of Maple Valley Finance Director.

B. GENERAL ACCOUNTING STANDARDS

The accompanying financial statements of the City of Maple Valley have been prepared in conformity with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). GASB is the accepted standard-setting body for governmental accounting and financial reporting principles, which are primarily set forth in GASB's *Codification of Governmental Accounting and Financial Reporting Standards*.

Since the issuance of the *Codification*, the GASB has issued other statements that amend, clarify or provide certain specific guidance on governmental financial reporting. The City has reviewed all applicable statements through GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, the last statement that has a 2014 effective date, and has implemented those that apply.

C. GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all activities of the City of Maple Valley. *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.

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 government's surface water management and other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned. These statements also include certain adjustments to present the information with a measurement focus and basis of accounting applicable to business-type funds. See discussion below on measurement focus and basis of accounting. The adjustments are shown in the Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position, as well as the Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities.

The government-wide financial statement's statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function. *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; and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes are reported as *general revenues* along with other revenues not properly included as program revenues.

Separate financial statements are provided for governmental and proprietary funds. For governmental funds, the City does not distinguish between major and non-major funds, but reports each individual governmental fund in a separate column in the fund financial statements. For proprietary funds, the City reports in a separate column each enterprise fund, and in another column its combined internal service funds.

D. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resources or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

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

Business-type funds segregate revenue and expenses into operating and non-operating categories. Operating revenue is considered to be the revenue generated from the purpose of the fund, in other words, what is paid by those who receive the service. Non-operating revenue is revenue received by other means, primarily investment earnings, but also includes intergovernmental revenue that is not received related to services rendered.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. With the current financial resources measurement focus, the focus is on current assets and current liabilities and changes in financial position rather than

changes in net assets. Fund balance, current assets less current liabilities, measures increases (revenues and other financing sources) and decreases (expenditures and other financing uses) and is considered a measure of available spendable resources. With the modified accrual basis of accounting, revenues are recognized only to the extent they are measurable and available to finance expenditures of the current fiscal period with debt service expenditures not accounted for until due. Revenue received within two months of year-end, meeting the above criteria, is considered for accrual.

The following revenue accrual policies apply to primary revenue sources. Property taxes are recognized as revenues in the year for which they are levied. Sales and use taxes are recognized as revenues in the year they are collected from the consumer assuming they are paid to the collecting agent, the Washington State Department of Revenue (DOR), in time for distribution to the City by the end of February of the following year (DOR's normal practice). Utility taxes, real estate excise taxes, and gambling taxes are recognized as revenue in the year collected from the consumer assuming the collecting agent remits them to the City by the end of February. Non-tax revenue is recognized as earned.

E. ACCOUNTING SYSTEM

The City operates its accounting system on a fund structure as prescribed by generally accepted accounting principles applicable to governmental entities. Each fund is considered a separate accounting entity. Each is accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, and revenues and expenditures or expenses, as appropriate. The City's resources are allocated to and accounted for in individual funds depending on the expenditure restrictions of individual resources. The following describes the City's fund structure.

GOVERNMENTAL FUNDS

General Fund - The General Fund is the principal operating fund of the City. It accounts for the financial resources of the City that are not accounted for in any other fund. The principal sources of revenue are: property, sales, and utility taxes; licenses and permits; State-shared revenue; development and recreation charges for services; fines and forfeitures; and miscellaneous revenue that includes rental income and investment earnings. The General Fund accounts for all operating expenditures of the City except those accounted for in the business-type funds. Primary expenditures are for: general government, community development, human services, parks and recreation, public safety, and public works.

Special Revenue Funds - Special Revenue Funds account for specific revenue sources that would otherwise be accounted for in the General Fund, but for which there exist certain legal restrictions. The revenue is segregated into individual special revenue funds to ensure expenditure for a specific purpose. The City of Maple Valley has the following special revenue funds.

- **Transportation Development Fund** – to account for transportation impact fees and other funds restricted for transportation capital improvements,
- **Park Development Fund** – to account for park impact fees and other funds restricted for park capital improvements, and
- **Real Estate Excise Tax Fund** – to account for real estate excise taxes restricted for capital improvements.

- **Drug Seizure Fund** – to account for resources seized or otherwise acquired as part of enforcement of controlled substance, DUI and other public safety laws.
- **Bond Proceeds Fund** – to account for resources received from General Obligation Bonds restricted for capital improvements.
- **Transportation Benefit District Fund** – to account for the receipt and disbursement and/or transfer of vehicle excise taxes collected by the Maple Valley Transportation Benefit District, a blended component unit of the City.

Capital Projects Funds - Capital Projects Funds account for the financing of major capital acquisitions and construction projects other than those financed by business-type funds. Sources of revenue are typically: grants, bond proceeds, and transfers from other funds. The City maintains a single **Capital Improvement Plan Fund**. All capital expenditures not financed by business-type funds are accounted for in the Capital Improvement Plan Fund. The Capital Improvement Plan Fund provides separate accounting for each individual capital project. At year-end, completed projects and construction in progress are capitalized.

BUSINESS-TYPE FUNDS

Enterprise Funds - Enterprise funds account for activity for which a fee is charged to external users with the intent of covering all or a significant portion of expenses including depreciation. Enterprise funds are required if debt is issued that is backed solely by enterprise fund fees, or if there is a legal requirement, or policy decision to recover all direct costs. The City of Maple Valley has the following enterprise funds.

- **Surface Water Management Fund** – to account for the revenue generated by surface water management fees and their expenditure for surface water operating and capital purposes. At this time there is no outstanding debt, but a policy decision has been made to recover all direct costs.
- **Lake Wilderness Golf Course Fund** – to account for the revenue generated by golf and restaurant charges and their expenditure for Lake Wilderness Golf Course operating and capital purposes. The City acquired the golf course with cash on November 30, 2006 to save it from development. The City has an agreement with Premier Golf Centers LLC to manage the facility through December 31, 2016.

Internal Service Funds - Internal service funds account for the financing of centralized services, performed within the City, for departments of the City. Charges to the departments cover the cost of operations and include funding for future equipment replacement or for the accumulation of reserves for unforeseen future events. In the government-wide financial statements, the transactions between these funds and other City funds are eliminated. The City of Maple Valley has the following internal service funds:

- **Vehicle Rental Fund** - to account for the operation of the City's vehicle fleet,
- **Central Services Fund** - to account for liability and property insurance, building services, office services, and information technology services; and
- **Unemployment Trust Fund** - to account for unemployment compensation payments.

F. FUND BALANCE POLICIES

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

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

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

NOTE 2 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. INTERNAL CONTROL SYSTEM

City management is responsible for establishing and maintaining an internal control system. The system is designed to ensure that the assets of the City are protected from loss, theft, or misuse, and that adequate accounting data is available to prepare financial statements in conformity with generally accepted accounting principles. The internal control system is designed to provide reasonable but not absolute assurance that these objectives are met. Reasonable assurance recognizes that: (1) the cost of controls should not exceed the benefits likely to be derived; and (2) the evaluation of costs and benefits requires estimates and judgments by management.

B. BUDGET AND SPENDING CONTROL

Budgets serve as control mechanisms for the operations of governmental units. Legal budgetary (expenditure) control in the City of Maple Valley is at the fund level, but budget and actual information are maintained at the fund, project, department, and object classification. The budget is adopted on the basis of accounting consistent with generally accepted accounting principles for each fund type.

The City of Maple Valley does not use encumbrance accounting. Governmental funds require expenditure budgetary control when compared to the annual budget. Unexpended budgeted amounts lapse at year-end unless specifically re-appropriated by Council action, which is only typically for capital projects. Proprietary funds require budgetary control at the revenue over (under) expenditure level, including transfers in from other funds and excluding depreciation. In 2014, there were no violations of budgetary control.

State law requires that the City adopt its annual budget by December 31st of the preceding fiscal year. The first step in the budget process is the identification by the Council of its priorities for the following year. This usually occurs in the spring at a Council retreat. The second step involves the forecasting of the revenue and the establishment of a baseline budget to carry existing programs into the next year. This step includes a six-year financial forecast to ensure that budget decisions for the following year can be funded long term. The third step involves development, by the senior management staff, of detailed departmental budget requests for presentation to and discussion with the City Manager. The City Manager then develops a preliminary budget that is presented to the City Council by the first of November.

The City Council holds public hearings and reviews the preliminary budget document during November and early December. The City Council then adopts, by State law by year-end, a budget ordinance appropriating funds at the fund level for the following year. An additional budget ordinance adopted in February or March of the budget year, re-appropriates Council approved prior year unexpended budgeted amounts, usually for capital projects only, and adjusts beginning fund balances to actual previous year end amounts.

Supplemental appropriations that amend total fund expenditures require a budget amendment ordinance approved by City Council. The City prepares monthly financial reports and reviews them with the City Council on a quarterly basis. The quarterly reports include a budget amendment ordinance if City Council actions during the quarter require one. The presentation of the year-end quarterly report includes the re-appropriating budget amendment ordinance as discussed above.

NOTE 3 CASH AND INVESTMENTS

Cash and cash equivalents include petty cash, a demand deposit checking account, and overnight investment in the State of Washington Local Government Investment Pool (LGIP). *Cash equivalents* are short-term, highly liquid investments that are both 1) readily convertible to known amounts of cash and 2) near their maturity that they represent insignificant risk of changes in value because of changes in interest rates. The LGIP and a certificate of deposit are considered to be *cash equivalents*. The petty cash accounts are included in the cash and cash equivalent amount of the General Fund. The other cash and cash equivalents along with other investments are accounted for within an internal City investment pool. Each City fund has equity in the pool. The beginning and ending month end equity positions are used to allocate monthly investment earnings.

Deposits to the City's checking account include: (1) City Hall deposits for development permits and fees, utility tax payments, and miscellaneous revenue (2) Lake Wilderness Lodge deposits for recreation program charges and Lodge rental fees; (3) Lake Wilderness Golf Course deposits made directly to the City's account by the golf contractor; and (4) King County automated clearing house deposits made directly to the City's account for property taxes, surface water management fees, and real estate excise taxes collected by the County. State deposits are made directly to the City's investment account at the State of Washington Local Government Investment Pool (LGIP). The State deposits include amounts for sales taxes, State-shared revenues, City business license revenue, Transportation Benefit District vehicle excise taxes, and LGIP investment earnings. In addition to the automated investment deposits, the City invests its excess cash in the LGIP and government agency securities in accordance with the City's investment policy as well as State law regarding allowable investments for local governments.

City of Maple Valley
Notes to the Financial Statements
December 31, 2014

The Washington State Local Government Investment Pool (LGIP), created by the Washington State Legislature in 1986, is managed and operated solely by the Office of the State Treasurer. The State Finance Committee administers the statute that created the pool and adopts appropriate rules. The State Treasurer established the LGIP Advisory Committee to provide advice on the pool's operation. The advisory committee includes 12 members selected from the active pool participants. Eight members are appointed by the participant associations, and four are appointed by the State Treasurer.

The LGIP is considered to be an extremely low risk investment. The pool is unrated by financial rating agencies. It is operated in a manner consistent with the Securities and Exchange Commission's Rule 2a-7 of the Investment Company Act of 1940. 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. The City's position in the pool is the same as the value of the shares.

Custodial Credit Risk - Deposits. In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. All City deposits are insured by Federal Depository Insurance (FDIC) up to \$250,000. All deposits not covered by FDIC insurance are covered by the Washington Public Deposit Protection Commission (WPDPC) of the State of Washington.

The WPDPC is a statutory authority established under RCW chapter 39.58. It constitutes a multiple financial institution collateral arrangement that provides for additional assessments against members of the pool on a pro rata basis up to a maximum of 10 percent of each institution's public deposits. Provisions of RCW chapter 39.58, section 60 authorize the WPDPC to make pro-rata assessments in proportion to the maximum liability of each such depository as it existed on the date of loss.

Custodial Credit Risk – Investments. For investments, this is the risk that in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All City securities are held for safekeeping by US Bank, as the City's agent, in the City's name.

Concentration of Credit Risk. Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. The City diversifies its investments by security type and institution. The investment policy states: "No more than 15% of the portfolio may be invested in a single security and no more than 25% of the portfolio may be invested in the securities of a single issuer" with the exception of the LGIP.

In addition to investments in the LGIP, the City has other investments. Based upon the City's policy and State law, allowable investments outside the LGIP are: repurchase agreements, U.S. government obligations or agencies, banker's acceptances, commercial paper, and certificates of deposit. Though all investments are allowable, the City's investment policy provides additional security. The City has a safekeeping agreement with a third party custody bank. All investments, outside the LGIP except any certificates of deposits, are held by this independent third party in its trust department. In addition to addressing custodial credit risk, the City's policy requires a portfolio that is diversified by maturity, default risk, and liquidity risk. The following summarizes these aspects of the City's investment policy.

1. Maturity - No more than 50% of the portfolio may be invested beyond 12 months and the average maturity of the portfolio may not exceed two years.
2. Liquidity risk – At least 10% of the portfolio must be invested in overnight instruments or in marketable instruments that can be sold to raise cash on one day's notice.

The following summarizes the City's cash and investment activity at December 31, 2014.

City of Maple Valley
Notes to the Financial Statements
December 31, 2014

	Beginning Balance	Receipts and Investments Purchased	Disbursements and Investments Sold	Ending Balance
Cash & Cash Equivalents				
Petty Cash	\$ 17,700	\$ 1,200	\$ 620	\$ 18,280
Demand Deposits	2,236,607	22,161,846	20,929,402	3,469,050
Investments (LGIP)	7,950,161	4,321,273	3,100,000	9,171,434
Total Cash & Cash Equivalents	\$ 10,204,468	\$ 26,484,318	\$ 24,030,022	\$ 12,658,764
Investments				
Certificates of Deposit	\$ 1,000,000	\$ -	\$ -	\$ 1,000,000
Other Investments (Gov. Agency)	5,969,007	-	1,597,213	4,371,794
Total Investments	\$ 6,969,007	\$ -	\$ 1,597,213	\$ 5,371,794

All investments, except certificates of deposit insured by the PDPC, are delivered to the City's custody bank and payment is not released until the investments are received. The custody bank holds the investment and remits interest payments to the City. The government agency securities are AAA rated investments. The following table shows the investments held by the custody bank at year-end. They are shown both at cost and at fair value.

	Amortized Cost	Fair Market Value
Other Investments		
U.S. Government Securities	\$ 4,194,190	\$ 4,371,794

NOTE 4 RECEIVABLES AND OTHER SHORT-TERM ASSETS

Receivable and other short-term asset amounts at year-end totaled \$1,417,408, up \$66,178 from the prior year amount of \$1,351,230. The increase is related to a substantial increase in sales and utility taxes receivable and prepaid items at the end of 2014, partially offset by a decrease in due from other governments as there were fewer grant receivable at year-end compared to the prior year. The following table summarizes the year-end receivables and short-term assets and compares the amounts to the prior year. All receivables are listed as net of allowances for uncollectible amounts, but no amounts are considered uncollectible.

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City of Maple Valley's Receivables and Other Short Term Assets

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Receivables (net of uncollectibles)						
Taxes	\$ 898,136	\$ 769,679	\$ -	\$ -	\$ 898,136	\$ 769,679
Accounts	77,764	73,540	79,962	69,531	157,726	143,071
Accrued Interest	54,647	54,033	-	-	54,647	54,033
Due from Other Gov'ts	192,200	299,578	230	12,478	192,430	312,056
Inventory	-	-	56,790	62,311	56,790	62,311
Prepaid Items	56,855	9,843	826	237	57,681	10,080
Total Receivables & Short-term Assets	\$ 1,279,600	\$ 1,206,673	\$ 137,807	\$ 144,557	\$ 1,417,408	\$ 1,351,230

The taxes receivable amount of \$898,136 is categorized as follows: property taxes, \$53,020; sales taxes, \$452,685; utility taxes, \$297,204; gambling taxes, \$16,958; and franchise fees \$78,269. The property taxes are billed and collected by King County and remitted to the City daily as collected. Of the property taxes receivable amount, 64.2% is from 2014 delinquencies, 24.4% is from 2013 delinquencies, with 11.4% from prior year delinquencies. If amounts are not collected in seven years, properties are sold to pay the taxes. For the other taxes receivable, amounts are actual collections through the first two months of 2015.

The accounts receivable amount of \$157,726, \$77,764 is in governmental activities for receivables from individuals, businesses, and developers and \$79,962 is in business-type activities which is for surface water management fees. Most of the accounts receivable in governmental activities is \$35,298 in overspent developer deposits. The City establishes deposit accounts for developer projects. When charges exceed the deposit amounts, the developers are billed. If developer receivables are not collected, the developer projects are put on hold. In business-type activities, surface water management fee receivables are billed by King County with the property tax billing and are usually very collectible.

The due from other governments amount of \$192,430 is categorized as follows: from the State of Washington, \$26,849; from King County, \$142,594; from the City of Kent, \$21,755, and from the City of Enumclaw, \$1,232. Of the amount due from the State of Washington, \$25,823 is for vehicle excise taxes collected by the State in December 2014 and remitted to the City in January 2015.

Of the amount due from King County, \$88,110 is for real estate excise taxes, collected by the County in December 2014 and remitted to the City in January 2015. \$230 is due from King County for surface water management fees collected by them but not yet remitted to the City. Also due from King County is a \$47,859 reconciliation amount based on a reconciliation process on the King County Sheriff's contract. The King County Sheriff's contract is billed to the City monthly based on the budget. After year-end closing, the Sheriff's office prepares a reconciliation of budget to actual for certain accounts and adjusts the first billing of the current year based on the results of the reconciliation of the prior year.

The amounts due from the City of Kent and City of Enumclaw relate to court revenue collected by them but not yet remitted to the City.

Effective October 1, 2014, the City entered into a lease agreement with Recology Cleanscapes, Inc. (Recology) to lease approximately 3,000 square feet of property at the City's Public Works maintenance facility to Recology for the storage of garbage containers, totes and other related supplies and equipment. Recology pays the City \$450 per month under the lease, which is subject to annual CPI

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adjustments beginning January 1, 2016. The annual CPI adjustment is for the Seattle area for the month of August, subject to a 1% floor and 4% ceiling. The lease term is through September 30, 2018, with an option to extend for an additional three year term. Either party can terminate the lease with thirty days notice to the other party.

In business-type activities, the inventory amount of \$56,790 is for pro shop merchandise and food and beverage inventory at the Lake Wilderness Golf Course. A physical inventory is taken at year end with expenditures adjusted to reflect the change in inventory from the preceding year. Inventory is valued at actual cost, based on invoice price to purchase the items in inventory. The prepaid items of \$57,681 relate to miscellaneous 2015 costs required to be paid prior to the end of 2014; of that amount \$20,050 is for TRAKiT Annual Maintenance and \$28,970 for the monthly City Hall lease.

NOTE 5 INTERFUND ACTIVITY

For the most part, the City does not use interfund receivables or payables unless they are required to fund a project pending receipt of grant funds. For 2014, the City did not have a year-end interfund receivable or payable. Other interfund activity is done on a cash basis. The Internal Service Funds are funded with month end cash receipts from the departments they provide service to. These charges are shown as expenditures to the fund and department receiving the service and as revenue in the Internal Service Funds with amounts eliminated in the government-wide financial statements.

With respect to other transfers that are also cash based and no interfund receivables or payables apply, the following table shows the 2014 activity.

	Transfers	
	In	Out
General Fund	\$ 67,015	\$ 393,341
Transportation Development Fund	-	761,745
Park Development Fund	-	558,777
Real Estate Excise Tax Fund	-	483,869
Transportation Benefit District Fund	-	215,994
Bond Proceeds Fund	-	1,503,806
Capital Improvement Plan Fund	3,980,672	-
Surface Water Management Fund	-	227,927
Lake Wilderness Golf Course Fund	97,771	-
	\$ 4,145,458	\$ 4,145,458

The General Fund received transfer-in from the Surface Water Management Fund of \$67,015 to fund lake management expenditures in the General Fund.

The Capital Improvement Plan Fund received transfers, as funds were budgeted and expended for capital projects: from the General Fund, \$295,570; from the Transportation Development Fund, \$761,745; the Park Development Fund, \$558,776; from the Real Estate Excise Tax Fund, \$483,869; from the Transportation Benefit District, \$215,994, from the Bond Proceeds Fund, \$1,503,806 and from the Surface Water Management Fund, \$160,912.

The Lake Wilderness Golf Course Fund received a transfer from the General Fund of \$97,771. In late 2010 a citizen committee recommendation included a rate increase proposal with funds set aside for capital and a down-sizing of the restaurant operation to which the entire operating loss was attributed. The stipulation was made that the City's General Fund would no longer subsidize operations. However, the Lake Wilderness Golf Course Fund still requires a subsidy to support operations from the General Fund.

NOTE 6 CAPITAL ASSETS

The capital assets include land, buildings, improvements other than buildings, machinery and equipment, and construction in progress. Infrastructure assets (roads and related improvements), including both those constructed since January 1, 2000 at actual cost and those constructed before January 1, 2000 at estimated costs, are included on the face of the financial statements in improvements other than buildings.

The City defines capital assets as items of a capital nature with a useful life of more than one year and a cost of more than \$5,000. If purchased or constructed, such capital assets are recorded at cost. Contributed capital assets are recorded at estimated fair market value at the time of acquisition. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Major outlays for capital assets and improvements are capitalized as construction in progress until the projects are completed. The table that follows summarizes the City's capital asset activity during 2014.

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Capital Assets

	Beginning Balance	Additions	Transfers	Retirements	Ending Balance
Governmental Activities					
Capital Assets not being depreciated					
Land	\$ 209,885,871	\$ 2,783,203	\$ (314,018)	\$ -	\$ 212,355,057
Intangibles-Easement	-	-	314,018	-	314,018
Construction in Progress	7,818,358	2,851,221	(6,738,645)	-	3,930,934
Total	217,704,229	5,634,424	(6,738,645)	-	216,600,008
Capital Assets being depreciated					
Buildings	10,402,376	-	-	-	10,402,376
Improvements Other Than Buildings	258,532,557	3,524,124	6,738,645	-	268,795,326
Machinery & Equipment	171,904	7,133	-	-	179,038
Machinery & Equipment (IS Funds)	1,272,118	74,813	(239,695)	(88,227)	1,019,009
Intangibles (IS Funds)	-	18,240	239,695	-	257,935
Total	270,378,954	3,624,311	6,738,645	(88,227)	280,653,684
Accumulated Depreciation					
Buildings	(1,883,178)	(262,504)	-	-	(2,145,682)
Improvements Other Than Buildings	(115,927,220)	(8,144,743)	-	-	(124,071,963)
Machinery & Equipment	(105,251)	(16,119)	-	-	(121,370)
Machinery & Equipment (IS Funds)	(807,172)	(89,126)	131,735	81,066	(683,498)
Intangibles (IS Funds)	-	(38,075)	(131,735)	-	(169,809)
Total	(118,722,821)	(8,550,567)	-	81,066	(127,192,323)
Net Capital Assets being depreciated	151,656,133	(4,926,256)	6,738,645	(7,161)	153,461,361
Governmental Activities, Net Capital Assets	\$ 369,360,363	\$ 708,168	\$ -	\$ (7,161)	\$ 370,061,369
Business-type Activities					
Capital Assets not being depreciated					
Land	\$ 9,933,167	\$ 3,755,899	\$ -	\$ -	\$ 13,689,066
Total	9,933,167	3,755,899	-	-	13,689,066
Capital Assets being depreciated					
Buildings	1,058,245	-	-	-	1,058,245
Improvements Other Than Buildings	2,142,356	-	-	-	2,142,356
Machinery & Equipment	234,822	-	-	-	234,822
Total	3,435,423	-	-	-	3,435,423
Accumulated Depreciation					
Buildings	(184,730)	(27,687)	-	-	(212,417)
Improvements Other Than Buildings	(564,398)	(71,935)	-	-	(636,333)
Machinery & Equipment	(202,043)	(9,797)	-	-	(211,840)
Total	(951,170)	(109,419)	-	-	(1,060,590)
Net Capital Assets being depreciated	2,484,253	(109,419)	-	-	2,374,834
Business-type, Net Capital Assets	12,417,420	3,646,480	-	-	16,063,900
Grand Total	\$ 381,777,783	\$ 4,354,648	\$ -	\$ (7,161)	\$ 386,125,269

In 2014 the City had a net capital asset increase of \$4,347,486. The amount reflects the fact that capital asset additions of \$13,014,634 are offset by increases in accumulated depreciation of \$8,659,987. The remaining difference is due to the retirement of assets that were not fully depreciated, \$7,161.

The net additions to land and improvements other than buildings represent developer contributions from Maple Ridge Highlands, Rock Creek Reserve, Arbors at Rock Creek, and Jordan's Crossing, as well as a drainage facilities turned over to the City with the expiration of the two year maintenance bond for the development. It also includes the capitalization of two transportation program projects.

The additions to construction in progress totaled \$2,851,221 for eight capital projects and two software projects that the City made expenditures on in 2014. The three significant projects were the Ravensdale Park Phase 2, Witte Rd-SR169 to SE 240th, and SR169 and 271st PI Intersection. In 2014,

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an additional \$225,039 was spent of the \$775,000 budget for the SR169 & 271st PI Intersection project, this project is expected to be completed in 2015. Also in 2014, an additional \$357,133 of a \$3,070,000 project budget was spent on the Witte Rd Improvements-SR169 to SE 240th project that is expected to be completed in 2015. Construction began on the Ravensdale Park Phase 2 project, and \$2,000,000 was spent of the \$2,000,000 budget. Other construction in progress expenditures were primarily for Witte Road projects and the Lake Wilderness park dock and parking lot project, along with continued work on the 216th Ave SE road project which is scheduled for construction in 2016. The City is also in process of completing the implementation of the TRAKiT software GIS module and beginning the implementation of a new Finance software, Incode.

The Summit Park easement valued at \$314,018 was transferred from land to intangibles. During 2014, the City exchanged 8.18 acres of a larger lot the City owned in exchange for a perpetual, non-exclusive easement granted by the Tahoma School District (TSD) to use said property including any improvements thereon. The property is adjacent to property the TSD purchased from King County to relocate and build a new high school. The property transferred by the City to TSD will have a parking lot, private road, and other improvements on it constructed at TSD's expense. The easement the City received will grant public access to the rest of the property the City retained which will be used for recreation purposes in the future.

Machinery and equipment additions totaled \$81,946. The additions were as follows:

- In the governmental activities area, \$74,813 was added from Internal Service Fund purchases and \$7,133 from the General Fund. The purchases included: a server for City Hall; an excavator and equipment trailer for the Public Works Maintenance department; a utility vehicle for the Parks Maintenance department; and a scoreboard for Patrick's Field.
- In the business activities area, there were no additions.

Retirements include three servers, a wireless access module, a Chevrolet pickup truck, a mini excavator, and two utility vehicles.

Software valued at \$239,695 was transferred from machinery and equipment to intangible assets.

Capital assets, except land and construction in progress, are depreciated using the straight-line method over the following estimated lives:

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<u>Capital Asset Types</u>	<u>Lives in Years</u>
Buildings	
Buildings	40
Building Improvements	10
Improvements Other Than Buildings	
Leasehold Improvements	7-10
Infrastructure Improvements	25-30
Other Improvements	10-30
Machinery and Equipment	
Information Technology Equipment	5
Telephones	5-7
Vehicles	7
Furniture	15
Heavy Duty Equipment	7-20

The actual useful life used will vary according to the above parameters depending on the type and use of the equipment.

The depreciation of general capital assets used in the operation of governmental funds reduces the capital asset balances and is shown as an expense by program on the Statement of Activities. The depreciation associated with the capital assets of the proprietary funds is shown on financial statements of the respective proprietary funds. Depreciation is not recognized until the year following the purchase of the asset, the following table shows the amount of depreciation charged to each governmental function.

	Governmental Funds	Internal Service Funds	Total
General Government	\$ 7,668	\$ 63,653	\$ 71,321
Parks & Recreation	285,442	13,024	298,465
Public Safety	1,266	-	1,266
Public Works	8,128,990	50,525	8,179,515
	\$ 8,423,366	\$ 127,201	8,550,567
Proprietary Fund Depreciation			109,419
Total Depreciation			\$ 8,659,986

NOTE 7 PAYABLES AND OTHER SHORT-TERM LIABILITIES

Payables and other short-term liabilities at year-end totaled \$1,567,522, down \$503,855 from the prior year amount of \$2,071,377. The majority of the decrease is in accounts payable related to capital projects as discussed below. The following table summarizes the year-end payables and short-term liabilities and compares the amounts to the prior year.

**City of Maple Valley
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City of Maple Valley's Payables and Other Short Term Liabilities

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Accounts Payable	\$ 311,123	\$ 934,977	\$ 86,016	\$ 100,110	\$ 397,139	\$ 1,035,087
Payroll Payable	135,822	144,315	3,513	3,439	139,335	147,754
Due to Other Gov'ts	168,868	66,405	60,459	5,235	229,327	71,640
Deposits and Unearned Revenue	623,469	623,407	28,666	56,807	652,135	680,214
Compensated Absences	131,332	120,142	843	-	132,174	120,142
Accrued Interest Payable	17,412	16,540	-	-	17,412	16,540
Total Payables & Short-term Liabilities	\$ 1,388,026	\$ 1,905,786	\$ 179,496	\$ 165,591	\$ 1,567,522	\$ 2,071,377

The accounts payable decrease of \$637,948 is primarily related to various expenditures in the General Fund where the work was performed or goods delivered prior to yearend but payment was not made until early the following year, \$56,700 was related to King County election expenses. The expense for these items is included in 2013 with a corresponding accounts payable accrual. The payroll payable decrease of \$8,419 is related to the accrued liability for salaries and wages earned in 2014 but not paid until 2015, there were several changes in staffing between 2013 and 2014 resulting in this difference. The due to other government's increase of \$157,687 is primarily due to payables at year-end for the court and jail as well as amounts due to the, King County, State Treasurer, Tahoma School District, and others at year-end.

The deposits and unearned revenue decrease of \$11,489 is predominately related to developer deposits received in 2014 for new residential developments. At year-end the account category totaled \$668,725 in the following components: unearned revenue from developers of \$242,959; developer deposits of \$262,929; fireworks stand deposits of \$1,000; Lake Wilderness Lodge deposits and unearned revenue, \$57,380; cable television franchise fees of \$30,000; Crosson judgement of \$29,201; and Lake Wilderness Golf Course deposits and unearned revenue, \$28,666. The Crosson judgement relates to City incurred costs for repair of a right-of-way abatement. The City has placed a lien on the property and is pursuing collection efforts against the homeowner.

The unearned revenue from developers is for amounts collected from developers for their portion of the cost of future transportation improvement projects. Four amounts between \$4,625 and \$135,568 are being held to help complete City projects identified in the transportation plan. These amounts decreased by \$25,587 during 2014.

The developer deposits are collected from applicants at the beginning of a development project. The amount increased \$79,679 from the 2013 amount of \$183,250 to \$262,929 with the addition of several development projects with deposits for construction inspections. The amount of the developer deposit depends on the type of development and is based on the anticipated cost of project review. The City tracks staff time and consultant costs against the deposit amounts. Deposits that are overdrawn are billed. At year-end, overdrawn deposits are reclassified to accounts receivables as described in Note 4. The non-receivable amounts remain in the deposit account until all charges have occurred and the project is complete at which time the remaining balance is refunded.

Unearned revenue for the Lake Wilderness Lodge is for rental deposits collected in 2014 for events to be held in 2015. Unearned revenue for the Lake Wilderness Golf Course is for memberships, \$5,391; tournament and banquet deposits, \$12,151; and gift cards, \$11,124. The membership portion of the account increased \$5,965 as membership activity picked up versus the prior year. Unearned revenue

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for business-type activities decreased \$28,141 from the prior-year amounts primarily due to amounts recognized as revenue during 2015 for the surface water management fund that were then no longer unearned revenue at December 31, 2015.

With respect to compensated absences, the City's policy allows employees to accumulate vacation leave to an amount up to the number of hours they can earn in one year and sick leave with no maximum. At year-end vacation and compensatory time hours plus sick leave hours, calculated at 25% and at the likelihood of being paid off at retirement from the State retirement system, are valued at the individual employee's year-end wage rate. The compensated absences payable amount is adjusted at year-end for any change in the amount of the liability. The vacation and compensatory time portion of the liability is \$108,958 and is assumed to be due within one year since the maximum vacation year-end balance is a one year accrual and the maximum amount of compensatory time is 40 hours. The sick leave pay out portion of the liability is \$14,975. It is also assumed to be current as the largest balance is for an employee who is expected to retire in 2015. The City also accrues the cost of benefits for accumulated compensated absences. The benefit accrual was \$8,242 in 2014. In prior years the liability has been liquidated by the General Fund and that is the intent in future years.

The accrued interest payable amount represents the interest due from December 1, 2014 to December 31, 2014 on the City's general obligation bonds, \$12,796 and the interest due from July 1, 2014 to December 31, 2014 on the City's contracts and loans payable, \$4,616.

NOTE 8 LONG-TERM LIABILITIES

Long-term liabilities at year-end totaled \$6,196,210, up \$825,380 from the prior year amount of \$5,370,830. All of the City's long term liabilities are associated with the governmental activities. There are no long term liabilities for business-type activities. The following table summarizes the long-term liabilities and compares the amounts to the prior year.

	<u>Governmental Activities</u>	
	<u>2014</u>	<u>2013</u>
Contracts & Loans - Current	\$ 184,621	\$ 184,621
General Obligation Bonds - Current	585,000	425,000
Contracts & Loans Payable	1,661,589	1,846,210
GO Bonds Payable	3,765,000	2,915,000
Total Long-term Debt	<u>\$ 6,196,210</u>	<u>\$ 5,370,830</u>

On June 26, 2000 the City issued general obligation bonds totaling \$6,710,000. The bonds were issued so the City could purchase a 54-acre site that the Council considered a legacy opportunity. The bond issue was structured so that half of the 54-acre site was purchased with bond proceeds and the other half was purchased with City funds. In structuring the bonds in this manner, only half of the site is unencumbered by bond restrictions, offering greater development flexibility. The other half of the bond issue proceeds was allocated to fund other land purchases and for street improvements. All bond proceeds were spent by December 31, 2004, during a period of declining investment interest rates, so no arbitrage calculation was needed.

On April 21, 2005, the City issued \$4,815,000 of general obligation refunding bonds to refund the callable portion of its 2000 general obligation bonds, bonds maturing in years 2011 through 2020. The refunding proceeds were placed in escrow and were used to completely retire the 2000 bonds on

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December 1, 2010. The refunding bonds have coupon rates from 3.00% to 4.25%. At the time of the refunding the outstanding general obligation bonded debt was increased by \$500,000 from \$5,995,000 to \$6,495,000, but the refunding provided a debt service savings of \$283,776 with a net present value of \$218,372 or 5.1%. As described in Note 15, Subsequent Events, these bonds were refunded in April 2015.

On March 31, 2014, the City issued limited tax general obligation bonds totaling \$1,530,000 with a coupon rate of 2.3%. Interest payments will be made on June 1 and December 1 of each year, and principal payments annually on December 1, until final maturity of the bonds on December 1, 2023. Annual debt service costs after the initial partial year will be approximately \$180,000. The bonds were issued so the City could enter into a \$2,000,000 interlocal agreement with King County Department of Natural Resources and Parks, Parks and Recreation Division to contribute funds towards the design, development, and construction of two synthetic multiuse athletic fields at King County's Ravensdale Park. All bond proceeds were spent by December 31, 2014.

In addition to bonded debt, the City at December 31, 2014 had State infrastructure loans payable of \$1,846,210. State infrastructure loans outstanding are for two projects: the SR 169 – SR 516 to SE 264th Street project and the SR 516 – 228th Avenue to Witte Road project. The City began borrowing funds for both projects in 2005. The final borrowing was done in 2008. Final interest rate on the loans was determined in 2009. Because the City had a 15% match, it qualified for the lowest interest rate, 0.5%.

The following shows the changes in long-term liabilities and the amount due within one year.

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities					
State Infrastructure Loan	\$ 2,030,830	\$ -	\$ 184,621	\$ 1,846,210	\$ 184,621
GO Bonds	3,340,000	1,530,000	520,000	4,350,000	585,000
Total Long-term Debt	\$ 5,370,830	\$ 1,530,000	\$ 704,621	\$ 6,196,210	\$ 769,621

The remaining debt service schedule to maturity for the general obligation loans and bonds is shown in the table below.

Debt Service Requirements to Maturity

Year	2014 Councilmanic GO Bonds			2005 Refunding GO Bonds		
	Principal	Interest	Balance	Principal	Interest	Balance
2015	\$ 145,000	\$ 33,005	\$ 1,290,000	\$ 440,000	\$ 120,551	\$ 2,475,000
2016	150,000	29,670	1,140,000	455,000	102,951	2,020,000
2017	150,000	26,220	990,000	475,000	84,751	1,545,000
2018	155,000	22,770	835,000	495,000	65,158	1,050,000
2019	160,000	19,205	675,000	515,000	44,368	535,000
2020-24	675,000	39,215	-	535,000	22,738	-
	\$ 1,435,000	\$ 170,085	\$ -	\$ 2,915,000	\$ 440,516	\$ -

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Year	State Infrastructure Loan 0.5%			State Infrastructure Loan 0.5%		
	2005 Loan - SR 516 - Witte to 228th			2005 Loan - SR 169 - SR 516 to 264th		
	Principal	Interest	Balance	Principal	Interest	Balance
2015	\$ 75,356	\$ 3,768	\$ 678,202	\$ 109,265	\$ 5,463	\$ 983,387
2016	75,356	3,391	602,846	109,265	4,917	874,122
2017	75,356	3,014	527,490	109,265	4,371	764,856
2018	75,356	2,637	452,135	109,265	3,824	655,591
2019	75,356	2,261	376,779	109,265	3,278	546,326
2020-24	376,779	5,652	(0)	546,326	8,195	(0)
	\$ 753,558	\$ 20,723	\$ -	\$ 1,092,652	\$ 30,048	\$ -

Total debt service for the four issues above is illustrated below.

Year	Governmental Activities		
	Principal	Interest	Total
2015	\$ 769,621	\$ 162,787	\$ 932,408
2016	789,621	140,929	930,550
2017	809,621	118,356	927,977
2018	834,621	94,389	929,010
2019	859,621	69,111	928,732
2020-24	2,133,105	75,799	2,208,904
Total	\$ 6,196,210	\$ 661,372	\$ 6,857,582

On August 25, 2014, and again on April 10, 2015, the dates of the last credit ratings for the City, Standard and Poor's Rating Services confirmed the AA+ underlying rating on these bonds.

In addition to the above debt, the City has other potential long term liabilities related to a non-cancelable operating lease for City Hall. The City's lease for City Hall expires December 31, 2019. For the year-ended December 31, 2014, the City expended \$342,030 for its office space lease up from the prior year amount of \$325,184. With respect to the City Hall lease, annual expenditures will increase at 2% a year plus or minus adjustments in the common area maintenance charges through December 31, 2019. The future minimum lease payments are as follows:

City Hall Lease	
Year	Minimum Lease Payment
2015	\$ 352,665
2016	357,750
2017	362,938
2018	368,231
2019	373,627
Total	\$ 1,815,211

The above amounts assume the current level of charges for common area maintenance, \$8,409.93 per month.

NOTE 9 NET POSITION

The difference between fund assets and liabilities is "net position" on the government-wide and proprietary fund statements, and is "fund balance" on the governmental fund statements.

The fund balance amounts for governmental funds have been classified in accordance with GASB Statement No. 54. As a result, are reported as non-spendable, restricted, committed, assigned, or unassigned.

- Non-spendable fund balance includes items that cannot be spent. This includes activity that is not in a spendable form (inventories, prepaid amounts, long-term portion of loans/notes receivable, or property held for resale unless the proceeds are restricted, committed or assigned) and activity that is legally or contractually required to remain intact, such as a principal balance in a permanent fund.
- Restricted fund balances have constraints placed upon the use of the resources either by an external party or imposed by law through a constitutional provision or enabling legislation.
- Committed fund balance can be used only for specific purposes pursuant to constraints imposed by a formal action of the City Council, the City's highest level of decision-making authority. This formal action is the passage of an ordinance by City Council creating, modifying, or rescinding an appropriation.
- Assigned fund balance includes amounts that are constrained by the City's intent to be used for a specific purpose, but are neither restricted nor committed. For governmental funds, other than the general fund, this is the residual amount within the fund that is not restricted or committed. The City Council may assign fund balance by express action through an Ordinance or Resolution, or the Finance Director may with delegated authority from the City Council through a budget Ordinance.
- Unassigned fund balance is the residual amount of the general fund not included in the four categories described above. Also, any deficit fund balances within the other governmental fund types are reported as unassigned.

Each fund has been analyzed to classify the fund balance in accordance with GASB Statement No. 54. Funds are created by the City Council and money is authorized to be transferred to the fund for a particular purpose. At this point, balances in these funds are at least committed, and may be further restricted depending on whether there is an external party, constitutional provision, or enabling legislation constraint involved. When both restricted and unrestricted funding sources are available, the City considers the restricted revenue sources to be used first before unrestricted revenue.

The appropriated balance in the general fund is assigned, and the remaining balance is unassigned. All other governmental funds are presented as restricted or committed. Appropriations specify the funding source, and therefore the order in which restricted, committed, assigned, or unassigned fund balance gets spent.

The General Fund's fund balance is unassigned except for a non-spendable amount for prepaid expenses, predominately prepaid rent on City Hall, as well as an amount assigned for the appropriation of fund balance for the subsequent year of \$439,368. The City has a policy requiring a fund balance of

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at least 16.7% of operating expenditures. At December 31, 2014, General Fund's assigned and unassigned fund balance was 33% of 2014 General Fund expenditures.

The Special Revenue Funds are restricted by State legislation which requires the segregation of resources for specific purposes. When these funds are combined and consolidated to produce the basic financial statements, the segregations are maintained by restricting the fund equities.

- Unspent Transportation Impact Fee funds are transportation impact fees and contributions from developers restricted for street capital purposes.
- Unspent Park Development funds are park impact fees, special property tax levies, and contributions from developers restricted for open space and park capital purposes.
- Unspent Real Estate Excise Tax funds are real estate excise taxes restricted for capital purposes.
- Unspent Drug Seizure funds are required by State law to be separately accounted for and used exclusively for controlled substance law enforcement, DUI enforcement, etc.
- Unspent Transportation Benefit District funds result from the collection of vehicle excise taxes by the Maple Valley Transportation Benefit District, a blended component unit of the City, and are to be used for subsequent year transportation infrastructure improvements.

The remaining balance in the Capital Improvement Plan fund is committed by City Council for public art purposes.

The net position on the proprietary fund financial statements is divided into two categories:

1. Net investment in capital assets less associated debt;
2. Unrestricted for funds that can be spent for any purpose for which the fund was established.

Proprietary Funds are restricted for the purposes designated in the establishment of the funds, but are unrestricted within the fund.

- Unspent Surface Water Management funds are to be used for surface water management operating and capital purposes.
- Unspent Lake Wilderness Golf Course funds are to be used for golf operating and capital purposes. As of December 31, 2014, the Lake Wilderness Golf Course had no unspent funds as a transfer from the General Fund was needed to eliminate a deficit position. It is hoped that reorganized operations will reduce the need for a General Fund transfer in the near future.
- Unspent Vehicle Rental and Central Service funds are to be used for vehicle and equipment replacement.
- Unspent Unemployment Trust funds are to be used for unemployment compensation payments.

NOTE 10 PROPERTY TAXES

On an annual basis before December 31st, the City Council establishes the property tax levy amount for the following calendar year. The maximum allowable levy is established by increasing the highest levy of the last three years by no more than the lesser of 1% or the rate of inflation as measured by the implicit price deflator (IPD) as of September of each year, adding the value of new construction at the prior year's levy rate, and adding any unused banked capacity created by not levying the maximum amount in previous years. At the present time the City has no unused banked capacity. Once the levy amount is determined, it is divided by the assessed value to determine a levy rate. The levy rate must

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be below the maximum regular property tax levy rate as established by State law, except that levies approved by the voters can exceed the maximum regular property tax levy.

For all cities in Washington, the maximum regular property tax levy rate is \$3.60 per thousand dollars of assessed value. This maximum amount is not entirely available to the City of Maple Valley as it has separate fire or library districts serving its residents. At incorporation, the citizens of Maple Valley voted to annex to both Fire District No. 43 and the King County Library District, with maximum regular property tax levy rates of \$1.50 and \$.50, respectively. For 2014, the City's maximum levy rate was \$1.60 per thousand dollars of assessed valuation (\$3.60 per thousand dollars of assessed valuation, less the fire district operating levy (\$1.50) and library district operating levy (\$.50)). As noted below though the City only levied \$1.47 per thousand dollars of assessed valuation.

The King County Assessor establishes the property values at 100 percent of the fair market value and consolidates property tax levy rates for all overlapping taxing districts. All property is revalued on an annual basis; once every five years by a site visit; and all other years by statistical modeling. Tax rates are applied to the prior year property value including the value of new construction as of July 31st. Taxes are levied annually on January 1st and become a lien on the property on that day.

Tax bills are mailed on February 14th and are due on April 30th. Payments may be made in two equal installments by April 30th and October 31st, but if the first half is not paid by April 30th, the full amount becomes delinquent with penalties and interest being applied. Payments are made to the County Treasurer who segregates collections by taxing district for distribution to taxing districts by automated clearinghouse within a few days of receipt.

For 2014 property taxes, the City's final revised levy was \$3,419,720 up \$99,695 or 3.0% from the 2013 revised levy of \$3,320,025. The levy amount produced a City levy rate of \$1.47 per thousand dollars of assessed valuation, down from \$1.55 the previous year. Of the revised levy amount for 2014, only \$53,032 or 1.5% remained outstanding at December 31, 2014. The outstanding amount for all prior year levies totals \$18,963. These outstanding amounts become property liens. If not collected within seven years, the property is sold to pay the taxes. This and other property tax data is shown in the Statistical Section of the financial statements.

NOTE 11 EMPLOYEE BENEFITS

A. VACATION AND SICK LEAVE BENEFITS

Eligible employees, depending on years of service, earn up to twelve hours of vacation leave and eight hours of sick leave per month. Vacation leave can be accumulated to a maximum of one year's accrual and used after a six-month trial service period. Sick leave can be accumulated in an unlimited amount but is only paid off at retirement from the State of Washington Public Employees' Retirement System (PERS) at 25% of its value. The accrual for unpaid vacation, compensated time off, and sick leave at December 31, 2014 is \$132,174 up from the 2013 amount of \$120,142. Of the total \$132,174, \$14,975 is the estimated value of the sick leave liability based on the likelihood of employees retiring from PERS within the next 10 years.

B. RETIREMENT BENEFITS

The City retirement program includes: the Medicare portion of Social Security, a 401(a) Substitute Social Security Plan, a State of Washington administered Public Employees' Retirement System

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(PERS), and a non-City contributory 457 plan. These retirement benefits are based on payroll dollars. The payroll dollars for the last three years are as follows:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Total Payroll	\$ 3,211,756	\$ 3,175,329	\$ 3,240,304
PERS Payroll	2,779,923	2,651,133	2,781,627

The total payroll exceeds the PERS payroll by the payroll for temporary employees who do not qualify for participation in PERS. The required and paid employer contributions to these retirement benefit programs for the last three years are as follows:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Medicare portion of Social Security			
Employer Contributions	\$ 45,635	\$ 45,219	\$ 46,223
Employee Contributions	45,635	45,219	46,223
Total Medicare contributions	<u>91,270</u>	<u>90,438</u>	<u>92,446</u>
Substitute Social Security Plan (401(a))			
Employer Contributions	181,472	176,799	178,013
Employee Contributions	199,129	196,208	139,246
Total 401(a) contributions	<u>380,601</u>	<u>373,007</u>	<u>317,259</u>
Public Employees Retirement System (PERS)			
Employer Contributions	251,200	217,285	200,177
Employee Contributions	145,035	131,280	134,017
Total PERS contributions	<u>396,235</u>	<u>348,565</u>	<u>334,194</u>
Total Contributions	<u>\$ 868,106</u>	<u>\$ 812,010</u>	<u>\$ 743,899</u>
Total Employer Contributions	\$ 478,307	\$ 439,303	\$ 424,413
Total Employee Contributions	389,799	372,707	319,486
Total Contributions	<u>\$ 868,106</u>	<u>\$ 812,010</u>	<u>\$ 743,899</u>

(1) 401(a) Plan

The 401(a) plan is social security replacement plan that defers federal income tax on employee contributions and allows employees to choose from a number of investment options for both their contributions and the employer's contributions. The 401(a) plan is a defined contribution plan. Contributions into the plan are 5.2% of payroll for the employer and 6.2% of payroll for the employee. The plan is administered by the International City/County Management Association Retirement Corporation (ICMA-RC), which also administers the City's 457 plan. With some exceptions based on age, employees become vested in the employer portion of the plan at 20% per year on their hiring date anniversary.

(2) PERS Plans

All City of Maple Valley full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit retirement plans. The Department of Retirement Systems (DRS), a department within the primary

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government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to: Department of Retirement Systems, Communications Unit, P.O. Box 48380, Olympia, WA 98504-8380; or it may be downloaded from the DRS website at www.drs.wa.gov. The following disclosures are made pursuant to GASB Statements 27, *Accounting for Pensions by State and Local Government Employers* and 50, *Pension Disclosures, an Amendment of GASB Statements 25 and 27*.

Plan Description

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

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

PERS members who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 and by either, February 28, 2002 for state and higher education employees, or August 31, 2002 for local government employees, are Plan 2 members unless they exercised an option to transfer their membership to Plan 3. PERS members joining the system on or after March 1, 2002 for state and higher education employees, or September 1, 2002 for local government employees have the irrevocable option of choosing membership in either PERS Plan 2 or Plan 3. The option must be exercised within 90 days of employment. Employees who fail to choose within 90 days default to Plan 3.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

PERS Plan 2 retirement benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

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

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

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

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

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

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

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

PERS Plan 3 benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

PERS Plan 2 and Plan 3 provide disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 monthly benefit amount is 2 percent of the AFC per year of service. For Plan 3, the monthly benefit amount is 1 percent of the AFC per year of service. These disability benefit amounts are actuarially reduced for each year that the member's age is less than

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65, and to reflect the choice of a survivor option. There is no cap on years of service credit, and a cost-of-living allowance is granted (based on the Consumer Price Index) capped at 3 percent annually.

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

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

There are 1,176 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2013:

Retirees and Beneficiaries Receiving Benefits	85,328
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	31,047
Active Plan Members Vested	150,706
Terminated Plan Members Nonvested	101,191
Total	368,272

Funding Policy

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

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

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

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

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

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

*** Plan 3 defined benefit portion only.

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

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

Both the City of Maple Valley and the employees made the required contributions. The City of Maple Valley's required contributions for the three years ending December 31, 2014 were as follows:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
PERS 1	\$ 12,836	\$ 10,494	\$ 8,927
PERS 2	226,558	201,881	186,869
PERS 3	11,806	4,909	4,381
	<u>\$ 251,200</u>	<u>\$ 217,285</u>	<u>\$ 200,177</u>
PERS Cost as % of PERS Payroll	9.04%	8.20%	7.20%

C. OTHER EMPLOYEE BENEFITS

In addition to leave and retirement benefits, the City provides: a Worker's Compensation program through the Washington State Department of Labor and Industries and a medical, dental, vision, group life, disability, and employee assistance programs through the Association of Washington Cities (AWC).

The City's cost for these benefit programs for the last three years is as follows:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Worker's Compensation	\$ 45,063	\$ 42,415	\$ 50,738
Medical, Dental and Vision (Health)	539,945	540,708	527,344
Group Life and Long-term Disability	16,947	16,072	18,196
	<u>\$ 601,955</u>	<u>\$ 599,195</u>	<u>\$ 596,278</u>
Other Benefit Cost as a % of Total Payroll	17%	17%	16%

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

Participating employers are contractually required to contribute at a rate assessed each year by the Trust. The City's contribution to the Trust for the year ended December 31, 2014, was \$539,945 or 17% of annual covered payroll and equaled the required contributions for the year. The group life insurance program payout is equal to the employee's annual salary. The disability program is at 60% of salary after 90 days.

D. OTHER (NON-PENSION) POST EMPLOYMENT BENEFITS

The "Trust" also provides medical benefits to certain eligible retired employees of participating employers and their eligible family members. The contribution requirements of participating retirees

and other beneficiaries, if any, are established and may be amended by the Board of Trustees of the Trust. The City makes no contributions for these benefits. Participating employers are not contractually required to contribute an assessed rate each year by the Trust for the non-LEOFF I retirees. The retiree pays for 100% of the premium.

NOTE 12 RISK MANAGEMENT

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

Utilizing Chapter 48.62 RCW (self-insurance regulation) and Chapter 39.34 RCW (Interlocal Cooperation Act), nine cities originally formed WCIA on January 1, 1981. WCIA was created for the purpose of providing a pooling mechanism for jointly purchasing insurance, jointly self-insuring, and / or jointly contracting for risk management services. WCIA has a total of 175 Members.

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

Liability coverage is written on an occurrence basis, without deductibles. Coverage includes general, automobile, police, public officials' errors or omissions, stop gap, and employee benefits liability. Limits are \$4 million per occurrence self-insured layer, and \$16 million per occurrence in the re-insured excess layer. The excess layer is insured by the purchase of reinsurance and insurance and is subject to aggregate limits. Total limits are \$20 million per occurrence subject to aggregate sub-limits in the excess layers. The Board of Directors determines the limits and terms of coverage annually.

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

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

WCIA is fully funded by its members, who make annual assessments on a prospectively rated basis, as determined by an outside, independent actuary. The assessment covers loss, loss adjustment, and administrative expenses. As outlined in the interlocal, WCIA retains the right to additionally assess the membership for any funding shortfall.

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

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

No settlement or claim has exceeded insurance coverage in the last three years or prior to that.

In addition to insurance coverage described above through the WCIA, the City of Maple Valley is self-insured for unemployment compensation. This coverage is provided through an internal service fund, the Unemployment Trust Fund. Through 2007 charges were made to departments at the State established rates with claims paid by the State and reimbursed by the City. In 2007 and prior,

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contributions to the Unemployment Trust Fund always exceeded claims paid. Based on this experience, the City stopped making contributions in 2008 and in 2009 transferred \$50,000 to the General Fund.

Since 2008 the City has used the fund's fund balance and investment earnings to pay claims. The following is a brief history of claims paid, and ending net position of the fund.

Unemployment

	<u>2014</u>		<u>2013</u>		<u>2012</u>
Claims Paid	\$ 28,377	\$	13,994	\$	3,739
Net Position	27,303		55,328		68,813

Based on the trend data and the fact that the City has had minimal layoffs, the net position at this time appears reasonable.

NOTE 13 COMMITMENTS

In the opinion of management, the City has recorded in its financial statements all known liabilities and the City's insurance coverage is adequate to pay all potential claims. At year-end there were no significant financial commitments that could affect the City financial position as all 2014 projects were essentially completed at year-end.

NOTE 14 PRIOR PERIOD ADJUSTMENTS

It was discovered that there was a contribution amount of \$4,625 in the Road Contribution Fund that was reflected as assigned fund balance in previous years. In 2014, this amount was reclassified as deferred revenue in the Road Contribution Fund and is planned to be used for a Witte Rd capital project within the next few years.

NOTE 15 SUBSEQUENT EVENTS

The City of Maple Valley City Council authorized on March 23, 2015, with Ordinance No. O-15-573, the refunding of the outstanding 2005 Refunding Bonds and to pay debt issuance costs.

The bond sale closed on April 30, 2015. The \$2,835,000 principal amount 2015 Limited Tax General Obligation Refunding Bonds were issued with a coupon rate of 3% through 2019 and 4% in 2020, the final year repayment. The True Interest Cost of the bonds, including debt issuance costs, is 1.39%. The bonds were sold with an \$187,980 premium. The result of the bond sale is a net present value savings of \$221,451 for debt service payments in 2015 through 2020.

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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

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