



For the year ended 2017

The City of Ellensburg
Washington
Comprehensive Annual
FINANCIAL REPORT



COMPREHENSIVE ANNUAL FINANCIAL REPORT

Finance Director
Jerica Pascoe

Accounting Manager
Holly Conti

Sr. Financial Analyst/Budget Officer
Keith Bassett, CGFM

Accountant II
Gloria Lanphere

Application Specialist
Brent Myrick

For The Fiscal Year
Ended December 31, 2017

Prepared by the Finance Department

CITY OF ELLENSBURG, WASHINGTON
 Comprehensive Annual Financial Report
 For the Fiscal Year Ended December 31, 2017

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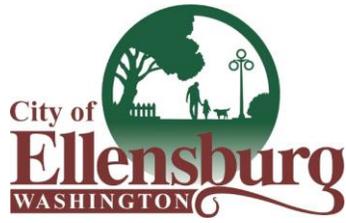
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Introductory Section

2017 Ellensburg City Council



Nancy Lillquist, Mayor Pro Tem
Term Expires: 12/31/2021



Nancy Goodloe
City Council Member
Term Expires: 12/31/2021



Bruce Tabb, Mayor
Mayoral Term Expires: 12/31/2019



David Miller
City Council Member
Term Expires: 12/31/2019



Nicole Klauss
City Council Member Term
Expires: 12/31/2019



Jill Scheffer
City Council Member
Term Expires: 12/31/2019



Mary Morgan
City Council Member
Term Expires: 12/31/2021

Administrative Staff



Cindy Smith
Human Resources Director



John Akers
City Manager



Terry Weiner
Assistant City Manager/City
Attorney



Jerica Pascoe
Finance Director



Ryan Lyyski
Public Works & Utilities Director



Kirsten Sackett
Community Development
Director



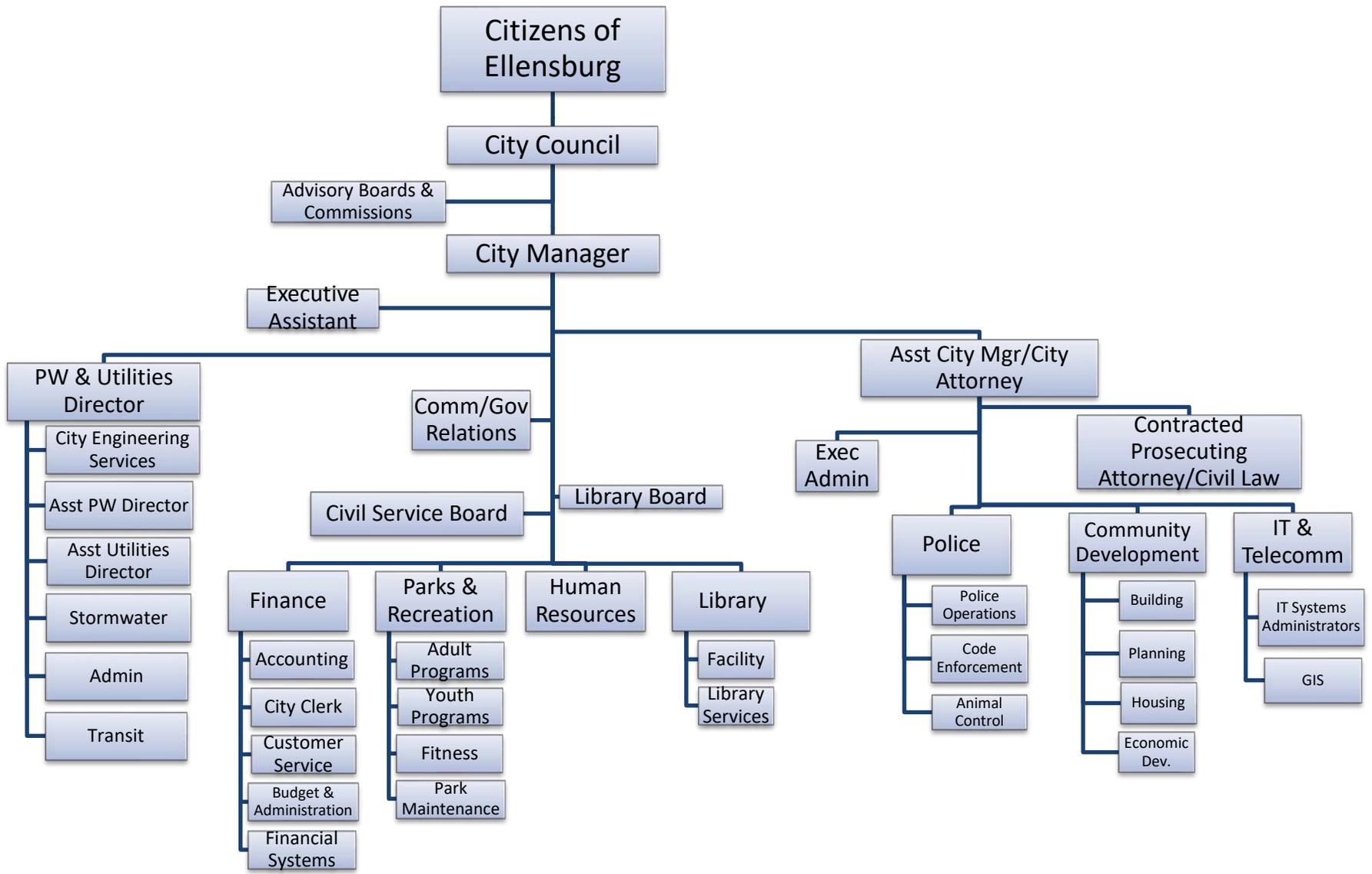
Brad Case
Parks & Recreation Director



Ken Wade
Chief of Police



Josephine Camarillo
Library Director





Financial Section



Office of the Washington State Auditor
Pat McCarthy

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

September 6, 2018

Mayor and City Council
City of Ellensburg
Ellensburg, 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 Ellensburg, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

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 Ellensburg, as of December 31, 2017, and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparison for the General and Arterial Street 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 and required supplementary information listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining and individual financial statements and schedules and supplementary information are presented for the purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. This information has been subjected to auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Our audit was conducted for the sole purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements as a whole. The Introductory and Statistical Sections is presented for purposes of additional analysis and is not a required part of the basic financial statements of the City. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we will also issue our report dated September 6, 2018, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Sincerely,

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

Pat McCarthy
State Auditor
Olympia, WA



Management's Discussion & Analysis

Management's Discussion and Analysis

As management of the City of Ellensburg, we offer this narrative overview and analysis of the financial activities of the City of Ellensburg for the fiscal year ended December 31, 2017 to the readers of the financial statements. The purpose is to highlight significant financial issues, major financial activities and resulting changes in financial position, and economic factors affecting the city. We encourage readers to consider the information presented here and accompanying notes following the narrative. All amounts, unless otherwise indicated, are expressed in millions of dollars.

Financial Highlights

- The assets and deferred outflows of the City of Ellensburg exceeded its liabilities and deferred inflows at the close of the most recent fiscal year by \$122.60 million (net position). Of this amount, \$23.11 million (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors. In addition, \$10.19 million (restricted net position) is dedicated to specific purposes and \$89.30 million is for net investment in capital assets.
- The government's total net position increased by \$7.15 million, which includes prior period adjustments of .24 million. The governmental activities increased by \$3.42 million and the business-type activities increased by \$3.73 million. The majority of the increase to governmental activities is attributable to the increase in sales and use taxes received, traffic impact fees, and grant funding used in arterial street projects. The majority of the increase to business type activities is attributable to operating income in all the utility funds as well as capital contributions in the Water and Sewer funds.
- As of the close of the current fiscal year, the City of Ellensburg's governmental funds reported a combined ending fund balance of \$13.42 million, which is an increase of \$2.65 million over the prior year. The City saw continued increase in construction in 2017, resulting in additional sales tax and building permits fees as well as a continued increase in other retail sales & use taxes classes.
- The City of Ellensburg's enterprise funds reported a combined ending net position of \$57.78 million which includes .14 million in prior period adjustments, which is an increase of \$2.57 million over the prior year. The majority of this increase is attributable to the increase in charges for services in all the utility funds as well as a decrease in operating expenses for Gas, Water, and Sewer funds. Interest and investment revenue increased for all the enterprise funds as well as capital contributions for the Water, Sewer, and Stormwater funds.

Overview of the Financial Statements

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

Government-Wide Financial Statements. The *Government-Wide Financial Statements* are designed to provide readers with a broad overview of the City of Ellensburg's financial position in a manner similar to that of a private-sector business.

The *Statement of Net Position* presents information on all of the City of Ellensburg's assets, liabilities, and deferred inflows/outflows of resources, 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 Ellensburg is improving or deteriorating.

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

Both of the government-wide financial statements distinguish functions of the City of Ellensburg that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City of Ellensburg include general government, public safety, transportation, economic development, social services, and culture and recreation. The business-type activities of City of Ellensburg include gas distribution, electric distribution, water distribution, sewer collection and treatment, telecommunications, and stormwater.

The *Government-Wide Financial Statements* can be found on pages 17 - 18 of this report.

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

These statements focus on major governmental funds and proprietary funds separately. The city's major governmental funds are presented in their own column and the remaining funds are combined into a column titled "Other Governmental Funds." Statements for the city's proprietary funds and fiduciary funds follow the governmental funds and include net position, revenues, expenses, and changes in fund net position and cash flow.

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

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

The City of Ellensburg maintains 21 individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the General Fund and Arterial Street Fund, which are considered major funds. Data from the other 19 governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

The City of Ellensburg uses a biennial budget process to adopt two (2) one-year annual budgets for its General Fund and Arterial Street Fund. This report includes a budgetary comparison statement to demonstrate compliance with these budgets.

The basic governmental fund financial statements can be found on pages 21-24 of this report.

Proprietary funds. The City of Ellensburg maintains two different types of proprietary funds; Enterprise and Internal Service Funds. *Enterprise funds* are used to report the same functions presented as business-type activities in the government-wide financial

statements. The City of Ellensburg uses enterprise funds to account for telecommunications, gas distribution operations, electric distribution operations, water distribution operations, wastewater treatment operations, and stormwater operations.

Internal service funds are an accounting device used to accumulate and allocate costs internally among the City of Ellensburg's various functions. City of Ellensburg uses internal service funds to account for its information technology system, fleet of equipment, health and benefits, and risk management. The fleet of equipment, information technology system and risk management predominantly benefit business-type functions rather than governmental functions, therefore they have been included within the business-type activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary funds financial statements provide separate information for the Gas, Electric, Water, and Sewer funds, which are considered major funds of the City of Ellensburg. Conversely, Information Technology (IT), Equipment Repair and Replacement (ER&R), Health and Benefits, and Risk Management funds in the internal service funds are combined into single, aggregated presentation in the proprietary funds financial statements. Individual fund data for the internal service funds is provided in the form of combining statements elsewhere in this report.

The basic proprietary fund financial statements can be found on pages 28 - 32 of this report.

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

The basic fiduciary fund financial statements can be found on pages 33 – 34 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 35 – 90 of this report.

Other information. In addition to the basic financial statements and the accompanying notes, this report also presents certain *required supplementary information* concerning the City of Ellensburg's progress in funding its obligations to provide pension benefits to its employees as well as schedules, statistical data, and other information. The combining

statements referred to earlier in connection with non-major governmental funds and internal service funds are presented immediately following the required supplementary information (RSI). The schedules can be found right before the combining and individual fund statements.

Government-Wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. Assets and deferred outflows exceeded liabilities and deferred inflows by \$122.60 million at the close of the 2017 fiscal year. The City's fiscal condition remains stable and is relatively better than last year.

The largest portion of City of Ellensburg's net position (73% (\$89.30 million out of \$122.60 million) reflects its investment in capital assets (e.g., land, buildings, improvements, machinery and equipment), less any related debt used to acquire those assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of Ellensburg's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

City of Ellensburg's Statement of Net Position December 31, 2017 (In Millions)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2016	2017	2016	2017	2016	2017
Assets:						
Current and Other Assets	\$ 14.48	\$ 19.19	\$ 30.96	\$ 31.37	\$ 45.44	\$ 50.56
Capital Assets	48.82	49.01	59.55	60.58	108.36	109.59
Total Assets	63.30	68.20	90.51	91.95	153.80	160.15
Deferred Outflow of Resources						
Def. Outflow of debt refunding				0.37	-	0.37
Def. Outflow of Res. Pension	1.23	0.95	1.08	0.28	2.31	1.24
Total Deferred Charges	1.23	0.95	1.08	0.66	2.31	1.61
Liabilities						
Other Liabilities	1.16	1.49	3.49	3.13	4.65	4.62
Long-Term Liabilities	11.97	12.00	23.85	21.16	35.83	33.16
Total Liabilities	13.14	13.48	27.34	24.29	40.47	37.77
Deferred Inflow of Resources						
Deferred Gain on Refunding	-		0.05	0.04	0.05	0.04
Deferred: Pension	0.08	0.94	0.07	0.41	0.15	1.35
Total Deferred Outflows of Resources	0.08	0.94	0.12	0.44	0.19	1.38
Net Position						
Net Investment in Capital	45.40	46.05	41.39	43.25	86.79	89.30
Restricted	5.16	7.22	2.42	2.97	7.58	10.19
Unrestricted	0.74	1.46	20.33	21.65	21.08	23.11
Total Net Position	\$ 51.31	\$ 54.73	\$ 64.14	\$ 67.87	\$ 115.45	\$ 122.60

An additional portion of the City of Ellensburg's net position (\$10.19 million) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position (\$23.11 million) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City of Ellensburg is able to report positive balances in all categories of net position. The government's net investment in capital assets increased by 2.88% (from \$86.79 million to \$89.30 million) The government's restricted net position increased by 34.44% (from \$7.58 million to \$10.19 million), and the unrestricted increased by 9.63% (from \$21.08 million to \$23.11 million). The increase in the restricted net position is due to capital contributions and the addition of the Ellensburg Public Transit Fund. This fund is mostly supported by an additional 2/10 of 1% sales tax increase, which is considered restricted.

The governmental activities increased the City of Ellensburg's net position by \$3.42 million, thereby accounting for 47.78% of the total growth in the net position. Key elements of this increase are as follows:

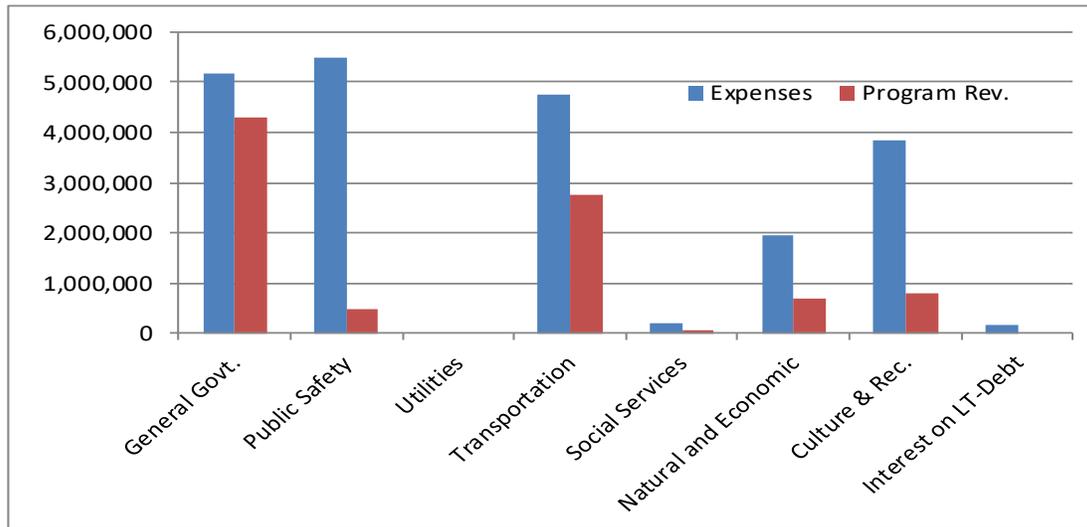
City of Ellensburg's Statement of Activities
For the Years Ended December 31, 2016 and 2017
(In Millions)

Revenues:	Governmental Activities		Business-Type Activities		Total Primary Government	
	2016	2017	2016	2017	2016	2017
Program Revenues						
Charges for Services	\$ 5.38	\$ 5.80	\$ 30.98	\$ 33.53	\$ 36.36	\$ 39.32
Operating Grants & Contributions	0.85	0.88	0.33	0.17	1.18	1.05
Capital Grants & Contributions	1.66	2.38	0.80	0.93	2.46	3.31
General Revenues						
Property Taxes	2.97	3.00	-	-	2.97	3.00
Retail Sales & Use Tax	6.05	8.44	-	-	6.05	8.44
Other Taxes	3.26	3.63	-	-	3.26	3.63
Investment Earnings	0.07	0.14	0.12	0.24	0.19	0.38
Gain (Loss) in change of fair value		0.03		(0.08)		(0.05)
Other Income	0.57	0.28	0.35	0.03	0.92	0.31
Total Revenues	20.82	24.58	32.58	34.82	53.39	59.39
Expenses:						
General Government	4.99	5.17			4.99	5.17
Public Safety	4.35	5.50			4.35	5.50
Transportation	5.38	4.74			5.38	4.74
Social Services	0.19	0.19			0.19	0.19
Natural and Economic	1.88	1.97			1.88	1.97
Culture & Recreation	3.60	3.85			3.60	3.85
Interest on LT Debt	0.14	0.15			0.14	0.15
Utilities	-	-	31.53	30.96	31.53	30.96
Others	-	-			-	-
Total Expenses	20.52	21.56	31.53	30.96	52.05	52.52
Inc(Dec) in Net Position before Transfers	0.29	3.02	1.04	3.85	1.34	6.87
Special Items - Gain (Loss)	0.00	0.04		-	0.00	0.04
Transfers	0.09	(0.02)	(0.09)	0.02	-	
Change in Net Position	0.39	3.04	0.95	3.87	1.34	6.91
Net Position - Beginning	50.92	51.31	63.18	64.14	114.11	115.45
Prior Period Adjustments	-	0.37	-	(0.14)	-	0.24
Net Position at Year End	\$ 51.31	\$ 54.73	\$ 64.14	\$ 67.87	\$ 115.45	\$ 122.59

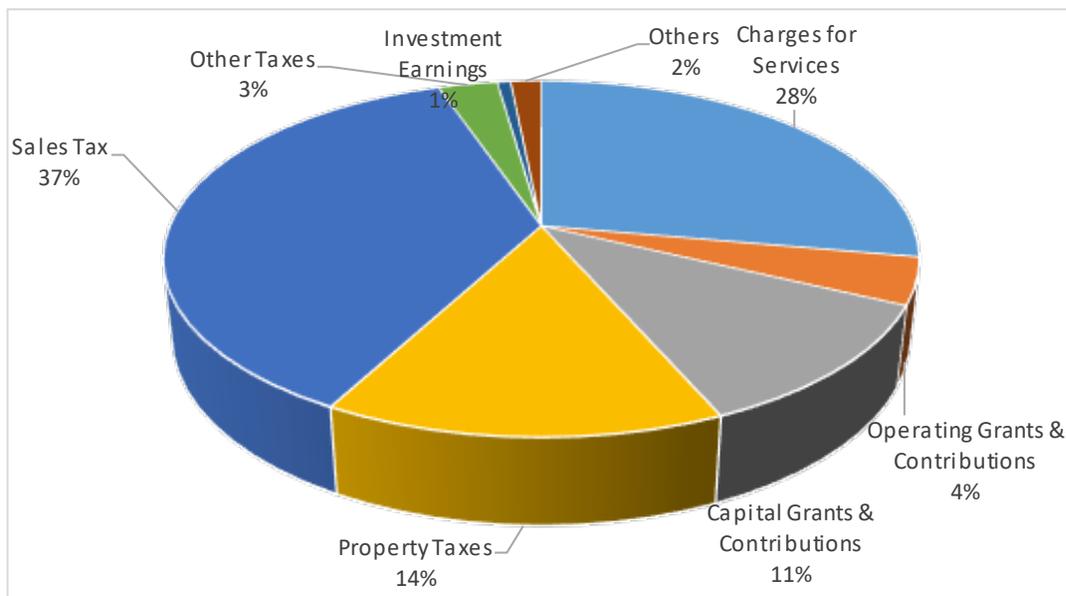
Governmental Activities

The net position for Governmental Activities from December 31, 2016 to December 31, 2017 increased by \$3.04 million. This is attributed to the increase in sales and use tax from construction and other classes, the passing of the .2% increase to retail sales and use tax for transit, increased utility taxes, and the increase in capital grants and contributions used for funding transportation.

2017 Expenses and Program Revenues - Governmental Activities



2017 Revenues by Source – Governmental Activities



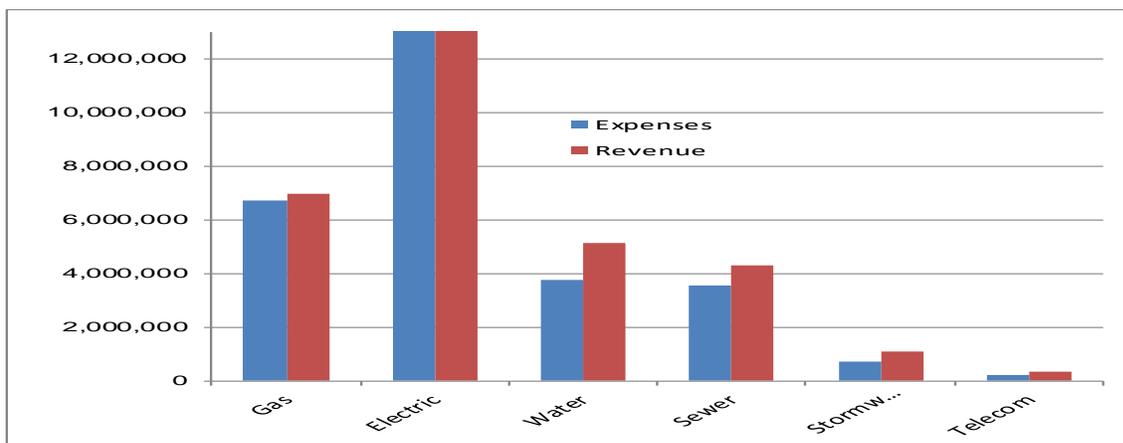
Business-type activities

The business-type activities increased the City of Ellensburg’s net position by \$3.87 million, accounting for 55.96% percent of the total growth in the government’s net

position. Increase in net position for the all utilities contributed approximately \$3.66 million. Key elements of this increase are as follows:

- utility rate increases
- weather
- capital contributions
- decreased maintenance and operations spending in the Gas, Water, and Sewer utilities.

2017 Expenses and Program Revenues – Business-type Activities



Financial Analysis of the Government’s Funds

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

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

As of the end of the current fiscal year, the City of Ellensburg’s governmental funds reported a combined ending fund balance of \$13.42 million (see page 21). This is an increase of \$2.65 million from the prior year. Of this amount, \$4.53 million constitutes unassigned fund balance, which is available for spending at the government’s discretion. The remainder of the fund balance is nonspendable, restricted, committed, or assigned to indicate it is not available for new spending because it has already been committed or designated to pay for contracts or special programs (\$8.76 million) or to pay debt service (\$0.13 million).

- The General Fund is the chief operating fund of the City of Ellensburg. At the end of the current fiscal year, the General Fund had a fund balance of \$4.59 million; the majority of this amount is classified as unassigned funds. The increase of \$.63 million in fund balance from the prior year is a result of an increase in retail sales and use tax, utility tax revenue increase, increase in investment income, and a decrease in capital outlay. As a measure of the General Fund's liquidity, it may be useful to compare unassigned fund balance to total fund expenditures. Unassigned fund balance represents 33.49% (\$4.53 million out of \$13.53 million) of the total General Fund expenditures. The General Fund reported \$1.27 million in interfund loans used to defease GO Bonds. The loan is reported on the face of the basic financial statements; however, the asset is only reported in the government-wide financial statements.
- Arterial Street Fund is a major fund of the governmental funds. Arterial Street Fund includes both the 123 (Arterial) and the 120 (Street) funds. At the end of the current fiscal year, Arterial Street had a fund balance of \$2.18 million, an increase of \$.17 million from 2016. A majority of this fund balance is classified as assigned (\$2.14 million). The assigned amount is to be used for street construction and maintenance. During the current year, the City of Ellensburg began design work and continued additional work on major projects such as the Vantage/Pfenning road intersection, 7th Avenue bike boulevard development, and the Capital Avenue project. The remainder of the expenditures were for street maintenance. The timing of grant funds used for projects such as John Wayne Trail, Bike Boulevard, Vantage/Pfenning Intersection, and the LED Street Light Conversion is the main reason for the increase in fund balance.

Proprietary funds

The City of Ellensburg's proprietary funds (see page 28-32) provide the same type of information found in the government-wide financial statements, but in more detail.

Restricted net position of the proprietary funds at the end of the year amounted to \$2.97 million including \$1.45 million in debt service and \$1.52 million in construction.

Unrestricted net position was \$23.42 million, and the total net position for all proprietary funds was \$69.64 million. Of the \$23.42 million of unrestricted net position, there is \$10.93 million in cash and cash equivalents.

- The Gas Fund had an ending net position of \$7.86 million in 2017. This is an increase of \$.063 million from 2016. The majority of this increase is due to the decrease in noncurrent liabilities from debt repayment and decreased net pension liability, increase in charges for services created by rate increases and weather, and a decrease in operating expenses.

- The Electric Fund had an ending net position of \$16.49 million, an increase of \$.42 million over 2016. The majority of this increase is attributed to the decrease in noncurrent liabilities from debt repayment and decreased net pension liability, and an increase in charges for services created by rate increases and weather.
- The Water Fund had an ending net position of \$16.25 million, an increase of \$1.40 million over 2016. This increase is attributed to the decrease in noncurrent liabilities from debt repayment and decreased net pension liability, increase in charges for services created by rate increases and weather, capital contributions, and a decrease in operating expenses.
- The Sewer Fund had an ending net position of \$13.16 million, which was an increase of \$.61 over 2016. the decrease in noncurrent liabilities from debt repayment and decreased net pension liability, increase in charges for services created by rate increases and weather, capital contributions, and a decrease in operating expenses.

The decrease in net pension liability for all utilities and the offsetting decrease in the adjustment to pension expenses are a result of a combination of factors found in the DRS CAFR RSI and notes. There was a decrease in overall services costs (referred to as service credits in the DRS CAFR) and the expected rate of return on investments was higher than projected. We are following the SAO suggested allocation methods. However because we have such a small pool of individuals in PERS 1, any retirement or addition of PERS 1 employees will swing the allocation between governmental and utilities.

General Fund Budgetary Highlights

Actual General Fund revenues were higher than the final budgeted revenues by \$.35 million during fiscal year 2017. This increase is mostly due to strong increases in retail sales and use tax revenue, utility tax revenue and building licenses and permits. Charges for services came in below budget. This is created with the “truing up” of interdepartmental admin allocation charges. The budgeted charges are calculated based on the estimated admin costs being allocated out to the different funds using the services. The costs for Finance Department, City Manager, Attorney and Personnel staff all came in below budget, therefore reducing the administrative allocation charges for their services.

The departments within the General Fund spent \$1.8 million less than their final annual budget.

Budget amendments and supplemental appropriations were made during the year to prevent budget overruns and to increase appropriations for unanticipated expenditures after adoption of the original budget.

The following are the significant supplemental appropriations during the year.

General Fund	BUDGET			ACTUAL		
	Original	Supplemental	Final	General	Other Funds	Total
Revenues						
Taxes	\$ 10.90	\$ -	\$ 10.90	\$ 6.52	\$ 4.90	\$ 11.42
Licenses & Permits	0.68	\$ -	0.68	0.74	-	0.74
Intergovernmental Revenues	0.40	\$ -	0.40	0.45	-	0.45
Charges for Goods & Services	3.84	\$ -	3.84	3.70	-	3.70
Fines & Penalties	0.28	\$ -	0.28	0.22	-	0.22
Miscellaneous Revenues	0.20	\$ 0.01	0.21	0.22	0.01	0.23
Other Financing Sources	2.10	\$ -	2.10	2.01	0.00	2.01
Total Revenues	18.42	0.01	18.42	13.86	4.91	18.77
Expenditures						
City General	1.31	(0.05)	1.26	1.14	-	1.14
Finance	1.83	0.03	1.86	1.73	-	1.73
City Manager	1.02	-	1.02	0.98	-	0.98
Police	4.78	0.01	4.79	4.31	0.04	4.35
Community Development	1.14	0.01	1.15	1.00	-	1.00
Engineering	1.00	0.05	1.05	0.95	-	0.95
Parks & Rec	2.37	0.05	2.42	2.35	-	2.35
Library	1.10	0.02	1.12	0.99	-	0.99
Debt Service	0.31		0.31	0.02	-	0.02
Capital Outlay- General	0.03		0.03	0.01	-	0.01
Other Financing Uses	4.43	0.52	4.94	0.02	4.61	4.63
Total expenditures	19.31	0.64	19.95	13.50	4.65	18.15
Change to fund balance	\$ (0.90)	\$ (0.63)	\$ (1.53)	\$ 0.37	\$ 0.25	\$ 0.62

The difference between the original budget and final budget calculated to a \$1.53 million decrease to fund balance. However, because of an increase in revenues and the underspending of expenditures in all other areas, the budgeted decrease to fund balance was not used, and the increase to fund balance was \$.62 million.

Capital Asset & Long-Term Debt Activity

The City of Ellensburg’s net investment in capital assets for governmental and business-type activities as of December 31, 2017 amounts to \$89.30 million (net of accumulated depreciation) (see page 17). This investment in capital assets includes land, building, and systems improvements, machinery and equipment, park facilities, roads, highways and bridges. The total increase in the City of Ellensburg net investment in capital assets for the current year included a 1.39% (\$.63 million out of \$45.40 million) increase for governmental activities and an increase of 4.5% (\$1.86 million out of \$41.39 million) for business type activities.

At the end of the fiscal year 2017, the City of Ellensburg’s net investment in capital assets for its governmental activities was \$46.05 million (see page 17). Major capital asset events during the current fiscal year included the following:

Change in Capital Assets (millions)

Governmental	12/31/2016	Additions	Decreases	12/31/2017
Land	\$ 12.81	\$ 0.10	\$ -	\$ 12.92
Construction in Progress	0.47	0.17	0.33	0.31
Infrastructure	65.52	2.51	-	68.02
Building	11.53	-	-	11.53
Non-Building Improvements	3.62	0.49		4.11
Machinery & Equipment	1.15	-	0.15	1.00
Total	95.10	3.27	0.48	97.89
Less Accumulated Depreciation	46.28	2.90	0.31	48.87
Total Capital Assets Net of Depreciation	\$ 48.82	\$ 0.37	\$ 0.17	\$ 49.01

Change in Capital Assets (millions)

Business Type activities	12/31/2016	Additions	Decreases	12/31/2017
Land	\$ 1.15	\$ 1.02	\$ -	\$ 2.17
Construction in Progress	3.34	0.30	2.40	1.25
Building	12.92	0.23	-	13.15
Non-Building Improvements	73.77	3.10	-	76.87
Machinery & Equipment	21.08	2.04	0.25	22.87
Total	112.26	6.70	2.65	116.31
Less Accumulated Depreciation	52.71	3.27	0.25	55.73
Total Capital Assets Net of Depreciation	\$ 59.55	\$ 3.43	\$ 2.40	\$ 60.58

See Note 5 for detailed information on Capital Assets

Commitments for capital expenditures

The City has active construction projects as of December 31, 2017. See Note 18 for detailed information on project commitments.

Long-term Debt

At year-end, the City had \$33.16 million in long-term debt.

Outstanding Debt, at Year-End (millions)

Governmental activities:	2016	Additions	Deletions	2017
Bond Payable	\$3.40	\$0.12	\$0.55	\$2.97
Premium	0.13	0.00	0.01	0.11
Compensated absences	0.77	0.16	0.00	0.93
OPEB Liability	3.40	0.44	0.00	3.84
Net Pension Liability	4.28	0.00	0.14	4.14
Total Governmental	\$11.97	\$0.72	\$0.70	\$12.00
Enterprise activities:				
Bond Payable	\$18.16	\$0.28	\$1.11	\$17.33
Premium	0.61	0.00	0.08	0.53
Comp	0.65	0.07	0.29	0.43
Net Pension Liability	4.44	0.00	1.56	2.87
Total Enterprise	23.85	0.35	3.04	21.16
Total Long-Term Debt	\$35.83	\$1.07	\$3.74	\$33.16

See Note 8 for more detail on Long-Term Debt.

In 2017, the City issued private placement bonds with North Cascades Bank to provide funds to make capital improvements to facilities of the City, including the renovation of the Police Department, and to pay costs of issuance of the Bond. This bond was issued December 28, 2017, is not to exceed \$7.2 million, and has a draw period that ends November 30, 2019. The City's outstanding balance as of 12/31/2017 was \$121,200. At the end of the draw period, the outstanding balance will be amortized over 18 years.

The state law limits the amount of general obligation debt the City can issue without the vote of the people to 1.5% of the total assessed value. As of the end of the fiscal year, the City has \$20.10 million remaining in debt capacity (non-voted). More detail information on capital assets and long-term debt are provided in the notes to the financial statements (Note 5 & 8).

The City also has an outstanding interfund loan in the total amount of \$1.27 million. This loan is from the Electric Fund to General Fund to defease the 2001 & 2002 G.O. bonds. This loan is not part of the Long-Term Debt; it is reported under interfund loans payable.

Economic and other factors affecting future financial position

The economy of the City is based mostly on government services and agriculture. The top major employers in the City of Ellensburg are government agencies and government support companies. A few of the City of Ellensburg's major employers are Central Washington University, Ellensburg School District, Kittitas Valley Hospital, Kittitas County, and the City of Ellensburg. The local economy continues to grow. Construction is continuing to boom in Kittitas County and Central Washington University is a driving force in the construction as well as other areas of the Ellensburg economy.

A .01 percent sales tax increase was included in the November 2017 ballot after a resolution passed by City Council in July 2017 for funding affordable housing and mental health services. The ballot passed and on April 1, 2018 the City's sales tax increased from 8.2 to 8.3 percent.

Contacting the City's Finance Department

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives.

If you have questions about this report or need additional financial information, contact:

Finance Department

City of Ellensburg

501 N Anderson Street

Ellensburg, Washington 98926

or visit the City web site at www.ci.ellensburg.wa.us