

INTRODUCTION

The City of SeaTac's Management's Discussion and Analysis (MD&A) provides a narrative overview of the City's financial activities and position for the fiscal year ended December 31, 2014. Since the MD&A was designed to focus on the activities, resulting changes, and currently known facts for the year 2014, this information should be read in conjunction with both the financial statements and the notes to the financial statements.

BASIS OF FINANCIAL INFORMATION

The City's government-wide financial statements have been prepared on the full accrual basis of accounting in conformity with Generally Accepted Accounting Principles (GAAP). The City's fund financial statements for governmental funds (general, special revenue, debt service, and capital projects) have been prepared on the modified accrual basis of accounting in conformity with GAAP. The City's proprietary funds (enterprise and internal service) are accounted for on the accrual basis, again in conformity with GAAP. A detailed discussion of the government-wide and fund financial statements can be found in later sections of this document.

FINANCIAL HIGHLIGHTS

- For the year ended December 31, 2014, total net position for the City was \$480 million. Of this amount, \$431.2 million or 90% was classified as investment in capital assets. This classification includes infrastructure, construction in progress, land, other improvements, buildings, equipment, and intangibles. Net position in the amount of \$23.9 million or 5% was restricted for debt service, equipment, capital projects, including Des Moines Creek Basin Interlocal Agreement projects and transportation projects, and tourism promotion and facilities. The remaining net position balance of \$24.9 million or 5% was classified as unrestricted and available for general City operations.
- Governmental funds ended the year with \$43.2 million in total ending fund balance on the modified accrual basis of accounting. This is a decrease of \$4.2 million or 8.8% over 2013 which ended the year with a \$47.4 million ending fund balance. The City spent \$12.8 million on large infrastructure projects which contributed to this draw down.
- The City implemented GASB Statement No. 69, Government Combinations and Disposals of Government Operations, by transferring all fire service operations to the Kent Fire Department Regional Fire Authority (Kent RFA) effective January 1, 2014. This transfer involved the consolidation of fire suppression and emergency medical services while increasing the level of service in certain areas like emergency management, fire prevention and fire investigation.

OVERVIEW OF THE FINANCIAL STATEMENTS

The City's financial statements are prepared on both a government-wide and an individual fund basis. Both perspectives allow for annual comparisons against other governments, improve the City's accountability and provide a comprehensive user friendly reporting format to use in understanding the City's financial condition.

Since incorporation in 1990, the City's financial statements have been prepared based on specific types of funds, i.e. capital project funds, debt service funds, etc. Due to the GASB Statement No. 34 reporting model (used since 2003), the previous reporting method was dramatically modified. The City's basic financial statements are now presented in four parts: 1) the Management's Discussion and Analysis (MD&A), 2) the government-wide financial statements, 3) the fund financial statements, and 4) the notes to the financial statements. Other Required Supplementary Information is also provided in addition to the basic financial statements in the City's Annual Financial Report.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide the reader with an overview of the City’s financial condition and activities as a whole. This broad overview is similar to the financial reporting for a private-sector business. The government-wide financial statements have separate columns for governmental activities and business-type activities. Governmental activities of the City include the following functions: Judicial, General Government, Public Safety, Transportation, Health & Human Services, Physical & Economic Environment, and Culture & Recreation. Governmental activities are supported largely by taxes and intergovernmental revenues while the City’s business-type activities are funded through user fees and charges. The City’s only business-type activity is a surface water utility which is funded through surface water management fees.

The Statement of Net Position presents information on the difference between all of the City’s assets plus deferred outflows of resources and liabilities plus deferred inflows of resources, highlighting the difference as net position. The Statement of Net Position is similar to the balance sheet of a private sector business. Over time, increases or decreases in net position may serve as a useful indicator of improvement or deterioration in the City’s overall financial position.

The Statement of Activities was designed to show how the City’s net position changed during the year. This financial statement separates the City’s programs into governmental activities and business-type activities. Revenues in the areas of charges for services, operating grants and capital grants are matched to the proper program. The revenues generated by the program are then compared to the expenses for the program. The end result is the net expense or net revenue by program. The net expense or net revenue shows if the program is self-supporting or if it relies on the general taxing authority of the City.

All activity on the Statement of Activities is reported on the accrual basis of accounting. This means that revenues are reported when they are earned and expenses are reported when they are incurred, regardless of when cash is received or disbursed. Items such as uncollected taxes, unpaid vendor invoices, and earned but unused vacation leave are included in the Statement of Activities as revenue and expenses even though no cash has changed hands. The government-wide financial statements are located immediately following Management’s Discussion and Analysis.

Fund Financial Statements

The City’s annual financial report also includes fund financial statements in addition to the government-wide financial statements. While the government-wide statements present the City’s finances based on the type of activity (governmental or business-type), the fund financial statements are presented in columns by major governmental fund and by major proprietary fund. A fund is a fiscal and accounting entity with a self-balancing set of accounts used to account for specific activities that meet certain common objectives. Funds are often established to comply with special regulations, restrictions, or limitations. The City of SeaTac, like other state and local governments, uses fund accounting to ensure and show compliance with finance-related legal requirements. The City’s funds are divided into two categories which include governmental and proprietary funds.

Governmental funds are used to account for essentially the same functions that are reported as governmental activities in the government-wide financial statements. However, the basis of accounting is different between the governmental fund statements and the government-wide financial statements. The governmental fund statements focus on near term revenues and expenditures, while the government-wide financial statements include both near term and long term revenues and expenses. The information in the governmental fund statements can be used to evaluate the City’s near term funding requirements and fiscal health. Comparing the governmental fund statements with the government-wide statements can assist the reader in understanding the long term impact of the City’s current year financing decisions. To assist in this comparison, reconciliations between the governmental fund statements and the government-wide statements are included on the Reconciliation of the Fund Balances of Governmental Funds to the Net Position of the Governmental Activities and on the Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities.

In 2014, the City of SeaTac maintained nineteen individual governmental funds on a budgetary basis. On a GAAP basis, the City maintained thirteen individual governmental funds. The City's six major governmental funds, as determined by the parameters of GASB Statement No. 34, are the General Fund, the Street Fund, the Hotel/Motel Tax Fund, the Special Assessment Debt Fund, the Municipal Facilities Capital Improvement Fund, and the Transportation Capital Improvement Fund. These funds are presented separately in the Governmental Funds Balance Sheet and the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances. The remaining governmental funds are combined into a single column labeled "Other Governmental Funds."

In 2014, the City maintained budgetary control over its operating funds through the adoption of a biennial budget. Budgets are adopted at the fund level according to Washington State law. Budgetary comparison schedules are presented for the General Fund and the major special revenue funds only in the Required Supplementary Information of the Annual Report.

Proprietary funds are used by the City to account for its business-type activities. Business-type activities provide goods and services to a group of customers. These services are paid for by fees charged to those customers. There is a direct relationship between the fees paid and the services provided.

The City of SeaTac utilizes two types of proprietary funds, including enterprise funds and an internal service fund. Enterprise funds are used to account for goods and services provided to citizens. Internal service funds are used to account for goods and services provided internally to various City departments.

Enterprise fund financial statements report the same functions that are presented as "business-type activities" in the government-wide statements. The single enterprise fund of the City is a surface water utility which would be used for operations, construction and debt related expenses.

Internal service funds are used to account for and distribute costs for a business-type function. These costs are distributed internally among the City's funds based on services used. The City uses an internal service fund to account for the repair and replacement of the City's vehicles and other large types of equipment. Internal service fund customers include both governmental and business-type activities. Although profits or losses are prorated in the government-wide Statement of Activities, the internal service fund's assets and liabilities are predominately governmental in nature, so they have all been included in the governmental activities column of the government-wide Statement of Net Position.

Notes to the Financial Statements

The notes to the financial statements provide additional information that is important to a full understanding of the data in the government-wide and fund financial statements. The notes are located immediately following the basic financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Statement of Net Position

Over a period of time, net position can be a useful indicator of the City’s financial position. The table below is a condensed version of the City’s Statement of Net Position.

City of SeaTac’s Net Position

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Assets:						
Current & other assets	\$ 51,526,393	\$ 56,583,426	\$ 4,811,550	\$ 4,152,201	\$ 56,337,943	\$ 60,735,627
Capital assets, net	405,190,200	398,077,372	25,992,352	26,321,966	431,182,552	424,399,338
Total Assets	456,716,593	454,660,798	30,803,902	30,474,167	487,520,495	485,134,965
Liabilities:						
Long-term liabilities	5,186,804	6,643,361	25,892	34,611	5,212,696	6,677,972
Other liabilities	2,242,928	2,659,234	52,546	46,768	2,295,474	2,706,002
Total Liabilities	7,429,732	9,302,595	78,438	81,379	7,508,170	9,383,974
Net Position:						
Net inv in capital assets	405,190,200	397,987,372	25,992,352	26,321,966	431,182,552	424,309,338
Restricted	23,913,781	25,434,856	-	-	23,913,781	25,434,856
Unrestricted	20,182,880	21,935,975	4,733,112	4,070,822	24,915,992	26,006,797
Total Net Position	\$ 449,286,861	\$ 445,358,203	\$ 30,725,464	\$ 30,392,788	\$ 480,012,325	\$ 475,750,991

In 2014, the City’s total net position increased by \$4.3 million. In addition, net investment in capital assets increased by \$6.9 million. The City spent approximately \$13.7 million on capital assets in 2014 with the bulk of the expenses going towards transportation improvements, including related land purchases, which were funded with parking and fuel taxes. The City’s total restricted net position decreased by \$1.5 million while unrestricted net position decreased by \$1.1 million. Most of the decrease in restricted net position can be attributed to the use of parking taxes to construct two large infrastructure road projects.

The City’s net position for governmental activities includes \$23.9 million in restricted resources that are subject to external limitations on how the funds may be used. The restricted net position amount is for debt service, capital projects including transportation projects, tourism promotion and capital facilities, and Des Moines Creek Basin ILA projects. The remaining balance of unrestricted net position in the amount of \$20.2 million may be used to meet the government’s ongoing obligations to citizens and creditors.

For business-type activities, there are currently no net position restrictions. Unrestricted net position is \$4.7 million and can be used for general surface water utility purposes including capital projects, if desired. In 2013, the City Council passed Ordinance #13-1014 (effective January 1, 2014) increasing surface water utility fees to fund the replacement of aging infrastructure, to provide a variety of programs and services mandated under the National Pollutant Discharge Elimination System (NPDES), and to fund future demands on the system. Annual service charges were increased by 20.33% with additional increases being scaled in until 2018.

Changes in Net Position

Changes in net position, as shown on the government-wide Statement of Activities, shows the net change or the difference between the total revenue activity and the total expense activity that took place during the current reporting period. The change in net position figure is added to the beginning net position figure to derive an accumulated ending net position figure for the City since incorporation. This figure is a quick way to view the City's financial condition based on historic financial transactions.

The table below represents a condensed version of the City's changes in net position. The table designates revenues as either program revenues or as general revenues. Program revenues are revenues generated by specific functions of the City. The expenses are listed by program or specific function. The change in net position is derived from netting the revenues against the expenses.

City of SeaTac’s Changes in Net Position

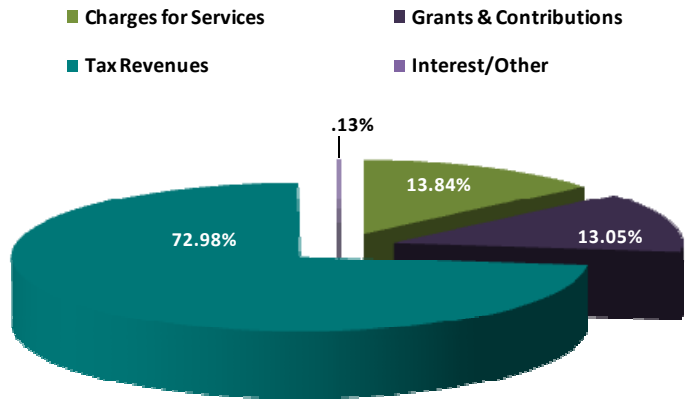
	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Revenues:						
Program Revenues:						
Charges for services	\$ 6,435,499	\$ 5,192,253	\$ 2,093,154	\$ 1,794,355	\$ 8,528,653	\$ 6,986,608
Operating grants & contrib	1,914,376	1,902,271	50,000	-	1,964,376	1,902,271
Capital grants & contrib	4,127,413	3,308,418	-	146,753	4,127,413	3,455,171
General Revenues:						
Property taxes	12,330,738	12,055,098	-	-	12,330,738	12,055,098
Sales taxes	12,168,644	10,553,024	-	-	12,168,644	10,553,024
Parking taxes	6,690,652	6,196,549	-	-	6,690,652	6,196,549
Excise taxes	2,145,957	2,104,344	-	-	2,145,957	2,104,344
Investment interest	57,504	63,119	8,304	9,685	65,808	72,804
Unrestrict grants & contrib	289,615	280,919	-	-	289,615	280,919
Gains on Asset Sales	6,862	8,800	-	-	6,862	8,800
Total Revenues	48,248,887	43,518,519	2,151,458	1,950,793	50,400,345	45,469,312
Expenses:						
Judicial	758,318	694,789	-	-	758,318	694,789
General Government	7,129,113	6,986,802	-	-	7,129,113	6,986,802
Public Safety	19,223,541	19,033,626	-	-	19,223,541	19,033,626
Transportation	6,232,620	5,923,963	-	-	6,232,620	5,923,963
Human Services & Health	735,581	715,639	-	-	735,581	715,639
Physical & Economic Env	4,719,274	4,514,277	1,843,474	1,843,002	6,562,748	6,357,279
Culture & Recreation	4,255,995	4,074,067	-	-	4,255,995	4,074,067
Interest on long-term debt	174,817	282,044	-	-	174,817	282,044
Total Expenses	43,229,259	42,225,207	1,843,474	1,843,002	45,072,733	44,068,209
Inc (Dec) in Net Position Before Transfers & Special Items						
Transfers	(24,692)	839,992	24,692	(839,992)	-	-
Special Items:						
Loss on sale of fire cap assets	(184,847)	-	-	-	(184,847)	-
Sale of fire non-cap property	280,693	-	-	-	280,693	-
Payment for fire accrued leave	(1,162,124)	-	-	-	(1,162,124)	-
Total Special Items	(1,066,278)	-	-	-	(1,066,278)	-
Inc (Dec) in Net Position	3,928,658	2,133,304	332,676	(732,201)	4,261,334	1,401,103
Net Position-Beg (as prev rptd)	445,358,203	443,070,207	30,392,788	31,124,989	475,750,991	474,195,196
Prior Year Adjustments	-	154,692	-	-	-	154,692
Net Position-Beg (as restated)	445,358,203	443,224,899	30,392,788	31,124,989	475,750,991	474,349,888
Net Position-Ending	\$ 449,286,861	\$ 445,358,203	\$ 30,725,464	\$ 30,392,788	\$ 480,012,325	\$ 475,750,991

Net position for governmental activities increased by \$3.9 million in 2014. One prior period adjustment in the amount of \$154,692 is included as an increase in beginning net position in 2013 for an overstatement in the City’s other post employment benefits obligation liability.

The City continues to apply for and receive various State and Federal grants for infrastructure projects and other smaller scale projects in other areas. In total, the City received \$4.1 million in grant revenues for capital purposes. Capital grants are up \$.7 million from the prior year; however, transportation project start dates and actual expenses incurred impact the timing of when actual grant revenues are received. In addition to capital grants, operating grants increased by \$62 thousand over 2013.

In 2014, tax revenues were on the rise for all tax categories ranging from a 2% increase in excise taxes to a 15.3% increase in sales taxes. Positive economic activity in the travel and tourism industry helped to create positive results for both parking taxes and hotel/motel taxes which rose 8% and 15.1%, respectively. The Port of Seattle's "2014 Airport Activity Highlights" reported that aircraft operations increased 7.7% over 2013, along with passenger levels which also increased 7.7%. Additionally, the Port of Seattle reported that air cargo increased by 9.1% from 2013 levels. The City of SeaTac's Economic Development division (in the Community and Economic Development Department) also reported that the City's economic environment is trending positively due to several hotel expansions, a high hotel occupancy rate with all time high lodging tax revenues, new development and redevelopment for both commercial and residential purposes, decreasing commercial vacancy rates and growing permit fees.

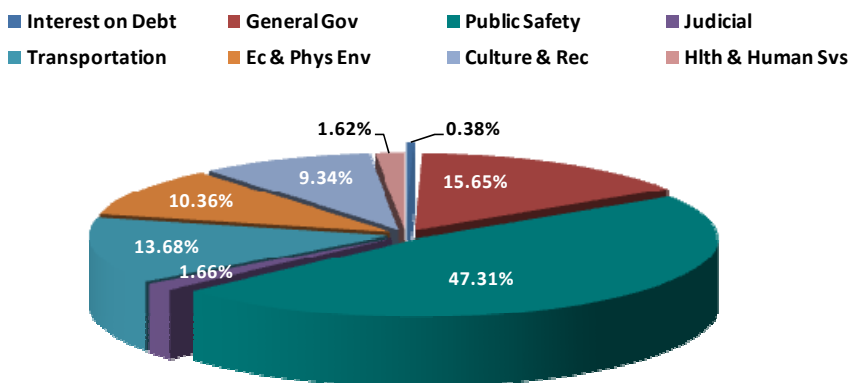
Revenues by Source for Governmental Activities



For governmental activities, total expenses increased by \$1.0 million or 2.4% from 2013. Seven out of the eight program areas in governmental activities had expense increases in 2014 ranging from 2% to 9.1%. Interest on long-term debt was the only program area with an expense decrease.

In 2014, Transportation related expenses increased by 5.2%. The City had a number of infrastructure construction projects that were in various phases of construction or planning. The largest on-going project was the extension of roadway on the 28th/24th corridor from South 200th Street to the existing intersection of 24th Ave South and South 208th Street. This extension connects to Des Moines improvements at South 216th Street. This project is anticipated to cost over \$20 million and will take an estimated four years to complete. Funding partners on this project include the Washington State Department of Transportation, the Port of Seattle and Sound Transit.

Expenses by Function for Governmental Activities



Judicial expenses increased by 9.1% or \$64 thousand over 2013. Municipal Court expenditures included one-time professional service costs for custom software development and related equipment costs totaling \$70 thousand.

Public Safety expenses experienced an increase of \$190 thousand (excluding special items) or 1% over 2013. An important change was made in the area of fire services in that the City contracted with the Kent Fire Department Regional Fire Authority which included additional fire-related services.

Business-type Activities: Net position increased by \$332.7 thousand in 2014 as compared to a \$732 thousand decrease in 2013. In 2014, net position rose due to an increase in surface water utility rates. In 2013, \$613 thousand was spent on two large pieces of capital equipment, a vactor and a sweeper, creating the decline. The equipment was transferred to the Equipment Rental Fund. Operational expenses were nearly the same for both years at approximately \$1.8 million.

FINANCIAL ANALYSIS OF THE CITY’S FUNDS

As previously discussed, the City of SeaTac uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The following analysis is provided for select governmental funds including the General Fund and the five other major funds as listed below. The City’s Surface Water Utility fund is also described below.

Governmental Funds

The purpose of the City’s governmental fund financial statements is to report on short term revenues/financial resources and expenditures. This information helps determine the City’s financial requirements for the near future. In particular, unassigned fund balance in the General Fund is a good indicator of the City’s resources available for spending at the end of the year. For the other five major funds, the resources are nonspendable, restricted or assigned to other purposes.

At the end of the 2014, the City’s combined ending governmental fund balance was \$43.2 million versus the 2013 ending fund balance of \$47.4 million. Included in the 2014 ending fund balance is \$868 thousand in nonspendable prepayments, \$25.1 million in restricted fund balance (i.e. transportation, tourism, capital projects, etc.) and \$4.7 million in fund balance which has been assigned to other purposes (i.e. equipment replacement, capital projects, etc.). New fund balance classifications for governmental funds were established in 2011 as per GASB Statement No. 54. In 2010, fund balance for governmental funds was classified as unreserved (designated and undesignated) and reserved only.

The General Fund is the primary operating fund of the City through which most receipts and payments of ordinary City operational expenditures are processed. Property taxes and sales taxes are the primary revenue sources for the General Fund. In 2013 and 2014, property taxes recorded into the General Fund equaled approximately \$11.6 million and \$12.3 million, respectively. In 2013 only, an additional \$403 thousand in property taxes were deposited into the 2009 LTGO Refunding Bond Fund to service the refunded debt on bonds that were originally issued in 1994 to acquire a City Hall. After 2014, this debt was paid in full.

In 2014, sales taxes recorded into the General Fund were \$10.8 million compared to \$9.7 million in 2013. As reported earlier in the MD&A, economic activity has picked up in the City in the areas of development and airport activity which helped to increase sales tax revenue and other related taxes like lodging taxes.

At the end of 2014, the fund balance of the General Fund was \$13.4 million which is only a slight increase over 2013. The recently implemented (in 2011) GASB Statement No. 54 Fund Balance Reporting and Governmental Fund Type Definitions refined the definition of special revenue funds as funds that are used to account for and report the proceeds of specific revenue sources that are restricted or committed to specific purposes other than debt service or capital projects. Governments with special revenue funds not meeting these requirements were to discontinue reporting these funds and report these resources in the General Fund instead. This GASB Statement required the City to report five funds differently in the financial statements (GAAP basis) than in the City’s budget (budgetary basis). The five funds and their respective fund balance additions to the General Fund are as follows: Contingency Reserve Fund - \$776 thousand, Port of Seattle ILA Fund - \$1.6 million, Transit Planning - \$264 thousand, Building Management Fund - \$2.4 million, and Facility Repair & Replacement – \$147 thousand for a total of \$5.2 million. Without the special revenue fund additions, the ending fund balance change for the General Fund would be decrease of \$1.1 million. A schedule for General Fund budget versus actual revenues and expenditures can be found in the Required Supplementary Information section of the Annual Report.

The City's second major fund, the Street Fund, was originally added as a major fund in 2007 due to parking tax revenues. Parking taxes are an important funding source for capital infrastructure projects and are transferred into the Transportation CIP Fund as necessary. The Street Fund ended the year with \$8.7 million in ending fund balance which is a decrease of approximately \$6.4 million from 2013. The decline was due to two large infrastructure projects.

The Hotel/Motel Tax Fund is a special revenue fund whose purpose is to account for lodging taxes collected and expended for tourism promotion and tourism facilities, including both capital and operating costs. The ending fund balance in 2014 for this Fund was \$7.1 million and included unexpended restricted bond proceeds of \$5 million to be used for future tourism related capital facilities. Lodging tax revenues have been on a steady rise over the last few years and 2014 brought in a record amount of lodging tax revenue at \$1.5 million. 2014 also marked the beginning of the Seattle Southside Tourism Promotion Area (or TPA) in partnership with the cities of Des Moines and Tukwila. As part of this new initiative, SeaTac chartered the first ever of its kind public development authority to administer the TPA funds, which are projected to be about \$3 million annually. This new entity is called the Regional Tourism Authority, and puts the management of these important funds into the hands of professionals who know how best to expend them for the purpose of growing the City's tourism industry.

The Special Assessment Debt Fund is a debt service fund used to make the debt service payments on the City's lone Local Improvement District (LID) bonds. This Fund was originally included as a major fund due to its large special assessment deferred revenues (now inflows of resources) balance. The ending fund balances for 2014 was \$269 thousand. This Fund carried a relatively small fund balance because all the cash collected from the LID was used to make the principal and interest payments on the bonds issued to pay for some of the initial construction improvement costs for the 28th/24th Avenue South arterial project. In 2014, the LID bonds were paid off in full.

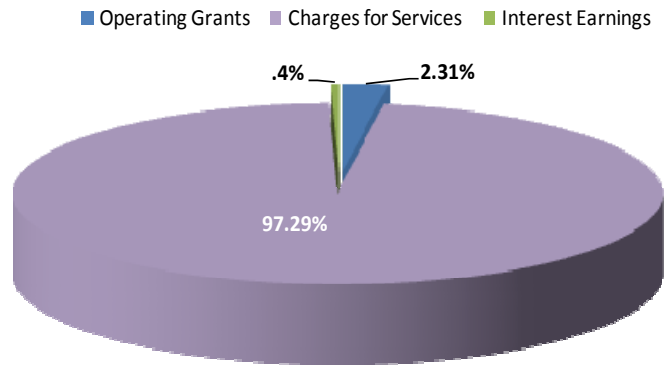
The Municipal Facilities Capital Improvement Fund is a capital projects fund whose purpose is to account for the expenditures related to major municipal capital projects including the purchase of land and the construction or major renovation of buildings. Although this Fund did not meet the GASB Statement No. 34 tests for inclusion as a major governmental fund, it was included in the governmental funds' financial statements as a major fund to provide reporting consistency from year to year. In 2014, the revenue source for this Fund was investment earnings. At the end of 2014, the fund balance in the Municipal Facilities Capital Improvement Fund was \$3.2 million. It is anticipated that all of these funds will be spent on replacing Fire Station #45 on South 200th Street as planned in the City's 2015 – 2020 Capital Improvement Program.

The Transportation Capital Improvement Fund is a capital projects fund whose purpose is to account for the revenues and expenditures related to transportation improvements. In 2014, the major revenue sources for this Fund included a \$2.2 million State Transportation Improvement Board Grant for the Military Road South project (South 166th – South 176th) and an \$830 thousand Department of Ecology Storm Water grant for this same project. The Street Fund transferred \$11.9 million into this Fund to pay for five projects, including three sidewalk projects and two roadway projects with right-of-way land purchases, and a transportation plan update study.

Business-Type Funds

The City’s only business-type fund is a Surface Water Utility Fund. This fund is a proprietary fund with financial statements that provide similar, but sometimes more detailed, information than the government-wide financial statements. The Surface Water Utility Fund accounts for the surface water management fees, the related maintenance and operations costs, capital costs and any debt service expenses. On the government-wide Statement of Net Position for business-type activities, the ending net position balance for proprietary funds was \$30.7 million and of this amount, \$4.7 million or 15.4% was unrestricted. The other \$26.0 million or 84.6% was classified as investment in capital assets. The chart to the right shows the major revenue sources (excluding transfers in) for the Surface Water Utility fund by percentage for 2014.

Revenues by Source for Business-type Activities



GENERAL FUND BUDGETARY HIGHLIGHTS

On a budgetary basis, the General Fund finished the 2013-2014 biennium with \$8.7 million in ending fund balance reserves. Although the City adopted a two year budget, budget estimates were completed for each year and will be used for comparison purposes against past and future years. The original budgeted ending fund balance amount for 2013-2014 was \$8.3 million. The actual ending fund balance exceeded the original budget by \$326 thousand or 3.9%. Actual revenues (excluding transfers in) for the biennium were \$59.2 million or \$364 thousand under the original estimate. The area with the highest negative variance was taxes. In 2013, the City hit its maximum property tax levy rate amount of \$3.10 per \$1,000 of assessed value due to a decline in assessed valuation creating a budget shortfall in this area of \$1.2 million. Increased sales taxes collections helped to make up some of the property tax shortfall.

The General Fund’s actual expenditures (excluding transfers out) were \$65 million for 2013-2014. The original 2013-2014 appropriation was \$64 million while the final budget was \$65.5 million. Final budget savings of \$461 thousand in the General Fund resulted from overall department efficiencies and program delivery savings.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

At the end of 2014, the City had \$405.2 million (net of accumulated depreciation) in governmental activities capital assets, including one internal service fund, and \$26 million (net) in business-type activities. Total internal service fund capital assets (net) were just under \$1.5 million. The internal service fund assets were included in the governmental activities column of the government-wide Statement of Net Position. Additional information on capital assets can be found in the Notes to the Financial Statements, in Note 6 Capital Assets. The following table summarizes the City’s capital assets for the year ended 2014:

City of SeaTac's Capital Assets

Capital Assets:	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Land	\$ 324,408,480	\$ 320,618,253	\$ -	\$ -	\$ 324,408,480	\$ 320,618,253
Intangible Assets-Easements	127,978	91,841	35,442	35,442	163,420	127,283
Constr in Progress (CIP)	13,109,842	6,746,277	29,931	-	13,139,773	6,746,277
Buildings/Building Impr	43,928,595	43,714,450	228,560	228,560	44,157,155	43,943,010
Other Improvements	12,425,363	10,256,079	32,476,815	32,180,597	44,902,178	42,436,676
Infrastructure	83,244,487	82,441,994	-	-	83,244,487	82,441,994
Equipment/Vehicles	1,991,593	5,837,188	-	-	1,991,593	5,837,188
Equipment/Vehicles-Eq Rental	3,417,616	3,209,824	-	-	3,417,616	3,209,824
Intangible Assets-Software	729,751	922,461	101,336	101,336	831,087	1,023,797
Less: Depreciation	(78,193,504)	(75,760,996)	(6,879,732)	(6,223,969)	(85,073,236)	(81,984,965)
Total Capital Assets (Net)	\$ 405,190,201	\$ 398,077,371	\$ 25,992,352	\$ 26,321,966	\$ 431,182,553	\$ 424,399,337

In 2014, the largest change in capital assets occurred in construction in progress for governmental activities. The City has various capital projects currently under design and construction including: South 168th Street sidewalks (34th Ave South to Military Road South), Connecting 28th/24th Avenue South, 24th Avenue South Overlay (South 154th to South 142nd), 37th and 40th Avenue South sidewalks and Fire Station #45 replacement. For the business-type activities, the City has one project for the Surface Water Utility which is the South 204th Street pond project.

Long-Term Debt

The City of SeaTac is authorized to issue long-term debt pursuant to the laws of the State of Washington. At the end of 2014, the City had only one type of allowable long-term debt outstanding which was general obligation (councilmanic) debt. No revenue bonds, special assessment debt or voter-approved general obligation debt was outstanding. The table below provides a summary of the City's outstanding debt for 2014 and 2013 by type:

City of SeaTac's
Outstanding Debt by Type

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
General Obligation Bonds	\$ 1,255,000	\$ 1,550,000	\$ -	\$ -	\$ 1,255,000	\$ 1,550,000
Special Obligation Bonds	2,471,100	2,529,600	-	-	2,471,100	2,529,600
Special Assessment Debt	-	90,000	-	-	-	90,000
Revenue Bonds	-	-	-	-	-	-
Total	\$ 3,726,100	\$ 4,169,600	\$ -	\$ -	\$ 3,726,100	\$ 4,169,600

General Obligation Debt

According to Washington State law, the City's debt capacity for general government purposes is limited to 2.5% or \$104.8 million of the City's assessed valuation. Of this 2.5%, the City Council has the authority to issue bonds and/or approve lease purchase agreements up to 1.5% or \$6.9 million. At the end of 2014, the City's assessed valuation was \$4,191,191,771 which is a 7% increase from 2013. The 2014 assessed valuation is used to calculate taxes to be collected in 2015. The City had \$3.7 million in outstanding councilmanic (non-voted) general obligation debt including the special obligation bonds issued by SCORE (South Correctional Entity) at the end of 2014. Repayment of this debt is guaranteed through the general taxing authority of the City. At this time, the City has no plans to issue additional general obligation debt.

In addition to the debt capacity limits for general government purposes (described above), there are other statutory limits of 2.5% for parks and open space and 2.5% for utilities for a combined total debt capacity of 7.5% or \$314.3 million of the City’s assessed valuation.

Revenue Debt

At the end of 2014, the City had no revenue debt outstanding. At this time, the City has no plans to issue new revenue debt.

Special Assessment Debt

Special assessment debt is created through the formation of a local improvement district (LID). LID debt pays for significant public improvements (roads, sidewalks, utilities, etc.) that benefit specific properties. Following the formation of an LID and the completion of the improvements, the benefiting property owners are assessed their proportional share of the costs with repayment permitted over a period of years. The City sells LID bonds to cover the cost of the improvements and repayment is backed by liens placed on the benefiting properties.

At the end of 2014, the City had no remaining LID bonds outstanding. No new special assessment debt was issued and there are no plans to issue new special assessment debt at this time. Additional information on the City’s long term debt can be found in Note 10 Long-Term Debt in the 2014 Notes to the Financial Statements.

ECONOMIC FACTORS AND THE BUDGET

For the 2015-2016 biennium, the General Fund’s ending fund balance is estimated at \$10 million. The City continues to utilize various strategies and initiatives to assist in maintaining the General Fund’s target fund balance of three months of operating expenditures of approximately \$8.8 million. Some of the strategies utilized in balancing the two year budget on the expenditure side included eliminating 4.8 full-time equivalents (FTE’s) and cutting various costs like training, professional services and a newsletter. On the revenue side, the fee schedule was revised to increase permit and other related fees, business license fees and a new utility tax was established. The utility tax is expected to add \$5.4 million in new revenues to General Fund taxes over two years.

Economically, it is anticipated that the General Fund will benefit from the City’s ongoing strategic planning efforts for future economic development. Areas that the City is focusing on include the Angle Lake Light Rail Station Area at 200th Street. Development is planned on the land around the Station for office and related commercial uses such as retail and hospitality. Additionally, a 289 unit senior independent living apartment complex is under construction in this area along with a new hotel which will be south of Angle Lake Park. Near the Tukwila Boulevard Light Rail Station at S 154th Street, the City is working to redevelop existing commercial property owned by the City (SeaTac Center). In 2014, the joint partnership with the City of Des Moines and the City of Tukwila on the Regional Tourism Authority (RTA) was in place and operating. It is anticipated this Authority will put \$3 million back into the area’s economy dedicated to the expansion of tourism.

City of SeaTac - General Fund Budget vs Actual

The table to the right shows the City’s General Fund budget on a two-year basis since 2011. Although the City prepared annual budgets prior to 2013, historic data was combined to allow comparisons to the 2015-2016 Biennial Budget. As shown in the table, the two year difference between revenues and expenditures typically

	2011-2012 Final	2013-2014 Final	2015-2016 Original
Budget:			
Budgeted Revenues	\$ 54,488,795	\$ 59,545,908	\$ 68,083,845
Budgeted Expenditures	\$ 59,328,665	\$ 65,450,693	\$ 69,984,179
Budgeted Difference	\$ (4,839,870)	\$ (5,904,785)	\$ (1,900,334)
Actual:			
Actual Revenues	\$ 55,608,879	\$ 59,181,562	N/A
Actual Expenditures	\$ 57,336,155	\$ 64,989,397	N/A
Actual Difference	\$ (1,727,276)	\$ (5,807,835)	N/A

Excludes other financing sources & uses; Budgetary basis differs from GAAP basis

reflects a deficit balance. Much of this difference is covered with interfund transfers including reimbursements of General Fund administrative and maintenance charges, or sales tax revenues from capital projects that were recorded into the Municipal Capital Improvements Fund.

REQUESTS FOR INFORMATION

This financial report was designed to provide a general overview of the City of SeaTac's finances for readers with an interest in the City's finances. Questions regarding any of the information in this report, or requests for additional information should be addressed to the City of SeaTac, Finance and Systems Director, 4800 South 188th Street, SeaTac, WA 98188-8605.



Statement of Net Position
December 31, 2014

	Governmental Activities	Business-type Activities	Total
Assets			
Cash & cash equivalents	\$ 40,642,285	\$ 4,510,173	\$ 45,152,458
Receivables (net)			
Taxes	3,710,149	-	3,710,149
Customer accounts & contracts	2,647,187	103,728	2,750,915
Special assessments	83,051	-	83,051
Interest	7,684	5,210	12,894
Due from other governments	538,271	-	538,271
Internal balances	(192,439)	192,439	-
Prepaid items	790,489	-	790,489
Investment in joint venture	3,299,716	-	3,299,716
Capital assets not being depreciated:			
Land	324,408,480	-	324,408,480
Intangible assets - easements	127,978	35,442	163,420
Construction in progress	13,109,841	29,931	13,139,772
Capital assets, net of accum deprec (Note 6):			
Buildings	28,587,637	177,247	28,764,884
Improvements other than buildings	6,649,151	25,739,598	32,388,749
Equipment, vehicles & software	2,077,132	10,134	2,087,266
Infrastructure	30,229,981	-	30,229,981
Total Assets	\$ 456,716,593	\$ 30,803,902	\$ 487,520,495
Liabilities			
Accounts payable & accrued expenses	1,906,363	43,472	1,949,835
Due to other governments	-	9,074	9,074
Accrued interest payable	3,933	-	3,933
Custodial accounts & other current liab	284,833	-	284,833
Unearned revenue	47,799	-	47,799
Noncurrent liabilities (Note 10):			
Due within one year	417,870	1,295	419,165
Due in more than one year	4,768,934	24,597	4,793,531
Total Liabilities	7,429,732	78,438	7,508,170
Net Position			
Investment in capital assets	405,190,200	25,992,352	431,182,552
Restricted for:			
Tourism promotion & facilities	5,833,517	-	5,833,517
Debt service	404,626	-	404,626
Capital projects & equipment	2,469,557	-	2,469,557
Transportation	13,140,584	-	13,140,584
Des Moines Creek Basin ILA projects	2,065,497	-	2,065,497
Unrestricted	20,182,880	4,733,112	24,915,992
Total Net Position	\$ 449,286,861	\$ 30,725,464	\$ 480,012,325

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

Statement of Activities
For the Year Ended December 31, 2014

	Program Revenues			
	Expenses	Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions
Functions/Programs				
Governmental Activities:				
Judicial	\$ 758,318	\$ 613,615	\$ 3,718	\$ -
General Government	7,129,113	1,506,984	400,653	156,826
Public Safety	19,223,541	955,843	524,861	-
Transportation	6,232,620	49,414	591,910	3,758,257
Health & Human Services	735,581	-	-	-
Physical & Economic Environment	4,719,274	2,519,646	375,902	131,156
Culture & Recreation	4,255,995	789,997	17,332	81,174
Interest on long-term debt	174,817	-	-	-
Total Governmental Activities	<u>43,229,259</u>	<u>6,435,499</u>	<u>1,914,376</u>	<u>4,127,413</u>
Business-type Activities:				
Surface Water Utilities	1,843,474	2,093,154	50,000	-
Total Business-type Activities	<u>1,843,474</u>	<u>2,093,154</u>	<u>50,000</u>	<u>-</u>
Total Government	<u>\$ 45,072,733</u>	<u>\$ 8,528,653</u>	<u>\$ 1,964,376</u>	<u>\$ 4,127,413</u>

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

	Net (Expense) Revenue & Changes in Net Position		
	Governmental Activities	Business-type Activities	Total
Functions/Programs			
Governmental Activities:			
Judicial	\$ (140,985)	\$ -	\$ (140,985)
General Government	(5,064,650)	-	(5,064,650)
Public Safety	(17,742,837)	-	(17,742,837)
Transportation	(1,833,039)	-	(1,833,039)
Health & Human Services	(735,581)	-	(735,581)
Physical & Economic Environment	(1,692,570)	-	(1,692,570)
Culture & Recreation	(3,367,492)	-	(3,367,492)
Interest on long-term debt	(174,817)	-	(174,817)
Total Governmental Activities	(30,751,971)	-	(30,751,971)
Business-type Activities:			
Surface Water Utilities	-	299,680	299,680
Total Business-type Activities	-	299,680	299,680
Total Government	(30,751,971)	299,680	(30,452,291)
General Revenues			
Property taxes	12,330,738	-	12,330,738
Retail sales & use taxes	12,168,644	-	12,168,644
Hotel/Motel taxes	1,465,442	-	1,465,442
Parking taxes	6,690,652	-	6,690,652
Gambling taxes	616,185	-	616,185
Excise taxes	2,145,957	-	2,145,957
Unrestricted grants & contributions	289,615	-	289,615
Unrestricted investment earnings	57,504	8,304	65,808
Gain on sale of capital assets	6,862	-	6,862
Total General Revenues	35,771,599	8,304	35,779,903
Transfers	(24,692)	24,692	-
Total General Revenues & Transfers	35,746,907	32,996	35,779,903
Special Items			
Loss on sale of personal fire capital assets	(184,847)	-	(184,847)
Sale of fire non-capital personal property	280,693	-	280,693
Payment for fire accrued leave balances	(1,162,124)	-	(1,162,124)
Total Special Items	(1,066,278)	-	(1,066,278)
Change in Net Position	3,928,658	332,676	4,261,334
Net Position-Beginning	445,358,203	30,392,788	475,750,991
Net Position-Ending	\$ 449,286,861	\$ 30,725,464	\$ 480,012,325

Balance Sheet
December 31, 2014

	Special Revenue			Debt Service	Capital Impr
	General	Street	Hotel/Motel Tax	Special Assessment Debt	Municipal Facilities CIP
Assets					
Cash & cash equivalents	\$ 10,191,584	\$ 7,966,835	\$ 7,041,793	\$ 269,409	\$ 3,284,595
Receivables (net of allowance for uncollectibles):					
Taxes	2,543,384	762,341	182,610	-	-
Customer accounts & contracts	1,433,574	8,873	2,190	-	-
Special assessments	-	-	-	83,051	-
Interest & penalties	1,273	-	-	6,411	-
Due from other governments	493,487	44,774	-	-	-
Prepaid items	754,254	627	400	-	-
Total Assets	\$ 15,417,556	\$ 8,783,450	\$ 7,226,993	\$ 358,871	\$ 3,284,595
Liabilities					
Accounts & other payable	406,908	115,740	92,940	-	44,569
Custodial & deposits payable	284,833	-	-	-	-
Unearned revenue	47,799	-	-	-	-
Total Liabilities	739,540	115,740	92,940	-	44,569
Deferred Inflows of Resources					
Unavail revenue-grants/interlocal	388,090	-	-	-	-
Unavail revenue-property taxes	160,302	-	-	-	-
Unavail revenue-court fines	645,895	-	-	-	-
Unavail revenue-leases/permits	57,456	-	-	-	-
Unavail revenue-sp assess/int/pen	-	-	-	89,463	-
Total Def Inflows of Resources	1,251,743	-	-	89,463	-
Fund Balances (Deficits)					
Nonspendable:					
Prepayments	754,254	627	400	-	-
Restricted:					
Transportation	-	8,667,083	-	-	-
Tourism promotion & facilities	-	-	7,133,653	-	-
Des Moines Creek Basin IIA	-	-	-	-	-
Open space & trails	-	-	-	-	-
Capital projects & equipment	-	-	-	-	-
Debt service	-	-	-	269,408	-
Assigned:					
Fire equipment replacement	-	-	-	-	-
Light Rail Station projects	-	-	-	-	-
Capital projects & equipment	-	-	-	-	-
2015-2016 excess budget approp	127,178	-	-	-	3,240,026
Unassigned	12,544,841	-	-	-	-
Total Fund Balances	13,426,273	8,667,710	7,134,053	269,408	3,240,026
Total Liab, Def Inflows of Res & Fund Balances (Deficits)	\$ 15,417,556	\$ 8,783,450	\$ 7,226,993	\$ 358,871	\$ 3,284,595

	Capital Impr		Total Governmental Funds
	Transportation CIP	Other Governmental Funds	
Assets			
Cash & cash equivalents	\$ 4,609,331	\$ 5,589,955	\$ 38,953,502
Receivables (net of allowance for uncollectibles):			
Taxes	-	221,815	3,710,150
Customer accounts & contracts	1,063,636	138,914	2,647,187
Special assessments	-	-	83,051
Interest & penalties	-	-	7,684
Due from other governments	-	10	538,271
Prepaid items	-	112,862	868,143
Total Assets	\$ 5,672,967	\$ 6,063,556	\$ 46,807,988
Liabilities			
Accounts & other payable	1,174,960	32,753	1,867,870
Custodial & deposits payable	-	-	284,833
Unearned revenue	-	-	47,799
Total Liabilities	1,174,960	32,753	2,200,502
Deferred Inflows of Resources			
Unavail revenue-grants/interlocal	25,133	49,906	463,129
Unavail revenue-property taxes	-	-	160,302
Unavail revenue-court fines	-	-	645,895
Unavail revenue-leases/permits	-	7,414	64,870
Unavail revenue-sp assess/int/pen	-	-	89,463
Total Def Inflows of Resources	25,133	57,320	1,423,659
Fund Balances (Deficits)			
Nonspendable:			
Prepayments	-	112,862	868,143
Restricted:			
Transportation	4,472,874	-	13,139,957
Tourism promotion & facilities	-	-	7,133,653
Des Moines Creek Basin ILA	-	2,065,497	2,065,497
Open space & trails	-	375,961	375,961
Capital projects & equipment	-	2,093,596	2,093,596
Debt service	-	26,289	295,697
Assigned:			
Fire equipment replacement	-	44,540	44,540
Light Rail Station projects	-	75,162	75,162
Capital projects & equipment	-	231,076	231,076
2015-2016 excess budget approp	-	948,500	4,315,704
Unassigned	-	-	12,544,841
Total Fund Balances	4,472,874	5,973,483	43,183,827
Total Liab, Def Inflows of Res & Fund Balances (Deficits)	\$ 5,672,967	\$ 6,063,556	\$ 46,807,988

**Reconciliation of Fund Balances of Governmental Funds
to the Net Position of Governmental Activities
December 31, 2014**

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

Governmental funds total fund balance on December 31, 2014 (as shown on the Balance Sheet for Governmental Funds)	\$	43,183,827
<p>Capital assets used in governmental activities are not financial resources and are not reported in the individual governmental funds.</p> <p>These capital assets consist of:</p>		
Land	\$	324,408,480
Intangibles - easements		127,978
Construction in progress		13,109,841
Buildings & structures		43,928,595
Other improvements		12,425,364
Infrastructure		83,244,487
Equipment		1,991,591
Intangibles - software		729,752
Less: accumulated depreciation		<u>(76,224,953)</u>
		403,741,135
Investments in joint ventures are not a financial resource and, therefore, are not reported in the governmental funds.		3,299,716
Other long-term assets are not available to pay current period expenditures and, therefore, are reported as unavailable revenue in the governmental funds.		1,423,660
Bond interest adjustments related to interest prepayments recorded in the governmental funds.		(77,654)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the individual governmental funds.		
<p>These long-term liabilities consist of:</p>		
Bonds payable	\$	(3,726,100)
Premium on bond issue (amortized over life of debt)		(45,536)
Accrued interest payable		(3,933)
Other post employment benefits payable		(479,436)
Compensated absences payable		<u>(929,203)</u>
		(5,184,208)
An Equipment Rental Internal Service Fund is used by management to charge the costs of repairing and replacing equipment to individual governmental funds. These assets and liabilities are included in governmental activities in the Statement of Net Position.		<u>2,900,385</u>
Net position of governmental activities (as shown on the Government-wide Statement of Net Position)	\$	<u>449,286,861</u>

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



Statement of Revenues, Expenditures and Changes in Fund Balance
For the Year Ended December 31, 2014

	General	Street	Hotel/Motel Tax	Special Assessment Debt
Revenues				
Taxes	\$ 25,823,230	\$ 6,690,652	\$ 1,117,042	\$ -
Licenses & permits	1,437,392	-	-	-
Intergovernmental & contributions	1,331,237	1,176,176	11,337	-
Charges for services	1,392,331	11,451	-	-
Fines & forfeitures	590,824	-	-	2,814
Investment & other earnings	46,325	7,122	5,355	8,402
Special assessments	-	-	-	54,610
Rent & leases	1,468,002	6,900	-	-
Miscellaneous	187,012	8,855	-	-
Total Revenues	32,276,353	7,901,156	1,133,734	65,826
Expenditures				
Current:				
Judicial	684,228	-	-	-
General Government	6,535,577	-	-	-
Public Safety	18,990,329	-	-	-
Physical Environment	-	-	-	-
Transportation	812,719	1,958,252	-	-
Health & Human Services	733,049	-	-	-
Economic Environment	2,353,963	73,550	1,247,184	-
Culture & Recreation	3,431,471	-	-	-
Debt Service:				
Principal	-	-	-	90,000
Interest & other costs	5,000	-	-	5,535
Capital Outlay:				
General Government	-	-	-	-
Public Safety	-	-	-	-
Transportation	-	26,359	-	-
Economic Environment	43,321	-	-	-
Culture & Recreation	-	-	-	-
Total Expenditures	33,589,657	2,058,161	1,247,184	95,535
Excess (deficiency) of revenues over (under) expenditures	(1,313,304)	5,842,995	(113,450)	(29,709)
Other Financing Sources (Uses)				
Transfers in	2,076,631	-	-	-
Transfers out	(855,000)	(12,245,050)	-	-
Disposal & insurance on cap assets	74,871	1,626	-	-
Total Other Fin Sources (Uses)	1,296,502	(12,243,424)	-	-
Special Items				
Proceeds from sale of fire assets	1,422,313	-	-	-
Payment for fire accrued leave bal	(1,162,124)	-	-	-
Total Special Items	260,189	-	-	-
Net Change in Fund Balances	243,387	(6,400,429)	(113,450)	(29,709)
Fund Balances-January 1st	13,182,886	15,068,139	7,247,503	299,117
Fund Balances-December 31st	\$ 13,426,273	\$ 8,667,710	\$ 7,134,053	\$ 269,408

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

	Municipal Facilities CIP	Transportation CIP	Other Governmental Funds	Total Governmental Funds
Revenues				
Taxes	\$ -	\$ -	\$ 1,900,967	\$ 35,531,891
Licenses & permits	-	-	-	1,437,392
Intergovernmental & contributions	-	4,201,130	555,591	7,275,471
Charges for services	-	169,148	233,362	1,806,292
Fines & forfeitures	-	-	16	593,654
Investment & other earnings	2,627	3,999	4,783	78,613
Special assessments	-	-	-	54,610
Rent & leases	-	-	-	1,474,902
Miscellaneous	-	30	198	196,095
Total Revenues	2,627	4,374,307	2,694,917	48,448,920
Expenditures				
Current:				
Judicial	-	-	69,953	754,181
General Government	-	-	47,139	6,582,716
Public Safety	-	-	1,060,000	20,050,329
Physical Environment	-	-	101,247	101,247
Transportation	-	887,391	-	3,658,362
Health & Human Services	-	-	-	733,049
Economic Environment	-	-	-	3,674,697
Culture & Recreation	-	-	15,972	3,447,443
Debt Service:				
Principal	-	-	353,500	443,500
Interest & other costs	-	-	177,916	188,451
Capital Outlay:				
General Government	-	-	239,990	239,990
Public Safety	263,112	-	-	263,112
Transportation	-	12,778,164	-	12,804,523
Economic Environment	-	-	140,485	183,806
Culture & Recreation	-	-	218,275	218,275
Total Expenditures	263,112	13,665,555	2,424,477	53,343,681
Excess (deficiency) of revenues over (under) expenditures	(260,485)	(9,291,248)	270,440	(4,894,761)
Other Financing Sources (Uses)				
Transfers in	-	12,455,000	397,092	14,928,723
Transfers out	-	-	(1,452,455)	(14,552,505)
Disposal & insurance on cap assets	-	-	-	76,497
Total Other Fin Sources (Uses)	-	12,455,000	(1,055,363)	452,715
Special Items				
Proceeds from sale of fire assets	-	-	-	1,422,313
Payment for fire accrued leave bal	-	-	-	(1,162,124)
Total Special Items	-	-	-	260,189
Net Change in Fund Balances	(260,485)	3,163,752	(784,923)	(4,181,857)
Fund Balances-Beginning	3,500,511	1,309,122	6,758,406	47,365,684
Fund Balances-Ending	\$ 3,240,026	\$ 4,472,874	\$ 5,973,483	\$ 43,183,827

**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 balance for all governmental funds combined		\$ (4,181,857)
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period:		
Capital outlays	13,709,706	
Depreciation expense	<u>(5,029,045)</u>	8,680,661
The net effect of various miscellaneous transactions involving capital assets (i.e. asset sales, transfers, etc) is to decrease net position.		
		(1,622,685)
Investment in joint ventures are not considered financial resources and are, therefore, not reported in the governmental funds.		
		380,958
The issuance of long-term debt is a resource and the repayment of bond principal is an expenditure in governmental funds, but those transactions increase or reduce long-term liabilities in the Statement of Net Assets. These debt related items consist of:		
Premium on debt refunding	11,384	
Debt principal repayments	<u>443,500</u>	454,884
Some revenues will not be collected for several months after the City's fiscal year ends and are not considered available revenues in the governmental funds. Unavailable revenues changed by this amount for the current year.		
		(665,635)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds. These expenses consist of:		
Net increase in accrued interest expense	2,250	
Net increase in other post employment benefits	(87,947)	
Net decrease in compensated absences	<u>1,090,863</u>	1,005,166
An Equipment Rental Internal Service Fund is used by management to charge the costs of equipment repairs and replacements to individual funds. Adjustments related to this Fund are reported on the Statement of Activities as governmental activity.		
Profit/Loss allocation & interest earnings	(25,004)	
Gain on sale of capital assets	6,862	
Transfers involving other funds (net)	<u>(104,692)</u>	<u>(122,834)</u>
Change in net position of governmental activities		<u>\$ 3,928,658</u>

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

Statement of Net Position
December 31, 2014

	Business-type Activities		Governmental Activities
	Surface Water Utility	Total Enterprise Funds	Internal Service Fund- Equipment Rental
Assets			
Current Assets:			
Cash & cash equivalents	\$ 4,510,173	\$ 4,510,173	\$ 1,688,783
Customer receivables (net)	103,728	103,728	-
Interest receivable	5,210	5,210	-
Total Current Assets	4,619,111	4,619,111	1,688,783
Noncurrent Assets:			
Capital assets (net of accumulated depreciation):			
Buildings	177,247	177,247	-
Other improvements	25,739,598	25,739,598	-
Vehicles and equipment	-	-	1,449,063
Intangible assets - software	10,134	10,134	-
Intangible assets - easements	35,442	35,442	-
Construction in progress	29,931	29,931	-
Total Noncurrent Assets	25,992,352	25,992,352	1,449,063
Total Assets	\$ 30,611,463	\$ 30,611,463	\$ 3,137,846
Liabilities			
Current Liabilities:			
Accounts payable	43,472	43,472	38,493
Due to other governments	9,074	9,074	-
Compensated absences	1,295	1,295	326
Total Current Liabilities	53,841	53,841	38,819
Noncurrent Liabilities:			
Compensated absences	24,597	24,597	6,203
Total Noncurrent Liabilities	24,597	24,597	6,203
Total Liabilities	78,438	78,438	45,022
Net Position			
Investment in capital assets	25,992,352	25,992,352	1,449,063
Unrestricted	4,540,673	4,540,673	1,643,761
Total Net Position	\$ 30,533,025	\$ 30,533,025	\$ 3,092,824
Cumulative adjustment to reflect the consolidation of the Equipment Rental Internal Service Fund activities as related to enterprise funds over time.		192,439	
Net position of business-type activities		\$ 30,725,464	

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

Statement of Cash Flows
For the Year Ended December 31, 2014

	Business-type Activities-Enterprise Funds		Governmental Activities
	Surface Water Utility	Total Enterprise Funds	Internal Service Funds
Cash Flows from Operating Activities:			
Receipts from customers	\$ 1,986,495	\$ 1,986,495	\$ -
Receipts from other funds	128,686	128,686	451,596
Payments to suppliers	(358,965)	(358,965)	(260,203)
Payments to employees	<u>(824,035)</u>	<u>(824,035)</u>	<u>(36,342)</u>
Net Cash Provided (Used) by Operating Activities	932,181	932,181	155,051
Cash Flows from Noncapital Financing Activities:			
Intergovernmental revenue	50,000	50,000	
Transfers from other funds	2,520	2,520	-
Transfers to other funds	(262,915)	(262,915)	(115,823)
Nonoperating revenue received	<u>(222)</u>	<u>(222)</u>	<u>4,688</u>
Net Cash Provided (Used) by Noncapital Financing Activities	(210,617)	(210,617)	(111,135)
Cash Flows from Capital & Related Financing Activities:			
Proceeds from sale of assets	-	-	6,862
Purchase of capital assets	<u>(35,656)</u>	<u>(35,656)</u>	<u>(217,978)</u>
Net Cash Provided (Used) by Capital & Related Financing Activities	(35,656)	(35,656)	(211,116)
Cash Flows from Investing Activities:			
Interest received	<u>8,964</u>	<u>8,964</u>	<u>1,285</u>
Net Cash Provided (Used) by Investing Activities	<u>8,964</u>	<u>8,964</u>	<u>1,285</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>694,872</u>	<u>694,872</u>	<u>(165,915)</u>
Cash & Cash Equivalents-Beginning*	<u>3,815,301</u>	<u>3,815,301</u>	<u>1,854,698</u>
Cash & Cash Equivalents-Ending	<u>\$ 4,510,173</u>	<u>\$ 4,510,173</u>	<u>\$ 1,688,783</u>

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

Note: Surface Water Utility Fund & Surface Water Construction Fund combined as of January 1, 2014.

	Business-type Activities-Enterprise Funds		Governmental Activities
	Surface Water Utility	Total Enterprise Funds	Internal Service Funds
Reconciliation of Operating Income			
(Loss) to Net Cash Provided			
(Used) by Operating Activities:			
Operating Income (Loss)	\$ 262,738	\$ 262,738	\$ (38,351)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation	655,763	655,763	196,601
(Incr) decr in accts receivable	22,027	22,027	-
Incr (decr) in accounts payable	(1,869)	(1,869)	(4,443)
Incr (decr) in due to other governments	2,241	2,241	-
Incr (decr) in compensated absences	(8,719)	(8,719)	1,244
Total adjustments	669,443	669,443	193,402
Net Cash Provided (Used) by Operating Activities	\$ 932,181	\$ 932,181	\$ 155,051
Noncash Capital Activities:			
Contributions of capital assets (other improvements) paid for by the Transportation CIP Fund.			
	296,218	296,218	-
Transfer of 2014 capital asset equipment purchase from the Surface Water Utility Fund to the Equipment Rental Fund.			
	(11,131)	(11,131)	11,131
Total Noncash Capital Activities	\$ 285,087	\$ 285,087	\$ 11,131



NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of SeaTac have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. Information on any new GASB Statements implemented can be found in Note 20 – Other Disclosures, Accounting and Reporting Changes.

The City's significant accounting policies are described below:

A. Reporting Entity

The City of SeaTac, Washington was incorporated on February 28, 1990 and operates under the laws of the State of Washington applicable to a Non-Charter Code City with a Council-Manager form of government. The City is administered by a full-time City Manager and a seven member City Council, with one of its members serving as Mayor. Councilmember terms are for a period of four years.

The City of SeaTac is a general purpose government. The City's Annual Financial Report includes all funds that are controlled by or are dependent on the City of SeaTac. In 2014, the City had no component units to present.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of the primary government. All fiduciary activities are reported only in the fund financial statements. The effect of interfund activity has been removed from the government-wide statements. Governmental activities, which normally are supported by taxes, intergovernmental revenues and other nonexchange transactions, are reported separately from business-type activities, which rely to a significant extent on fees and charges to external customers for support.

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

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

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. In addition, the City considers property taxes to be available if they are collected within 60 days after year end. Expenditures are

generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, claims, judgments and other post-employment benefits, are recorded only when a payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Taxes (includes property, sales, hotel/motel, leasehold excise, real estate excise and parking), licenses and interest earnings associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessment receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

The General Fund (#001) is the City's primary operating fund. It accounts for all financial resources of the general government, except those required or elected to be accounted for in another fund. The primary revenue sources in the General Fund are property taxes and sales taxes.

The Street Fund (Special Revenue Fund #102) accounts for restricted parking tax and fuel tax revenues which are used to fund various transportation programs and capital projects. The parking tax revenues also cover interfund transfers to the Transportation Capital Improvement Fund (#307).

The Hotel/Motel Tax Fund (Special Revenue Fund #107) is used to account for a restricted 1% lodging tax collected for tourism promotion and the acquisition and operation of tourism-related facilities.

The Special Assessment Debt Fund (Debt Service Fund #204) accounts for special assessment collections and debt service payments for local improvement districts (LID's) located within the City. The City currently has one local improvement district.

The Municipal Facilities CIP Fund (Capital Improvement Fund #306) accounts for the expenditures related to the construction of City buildings and major land acquisitions. There are no major revenue sources for this Fund. Transfers in from other funds pay for the capital improvements, as needed.

The Transportation Capital Improvement Fund (Capital Improvement Fund #307) accounts for transportation related infrastructure projects. The major revenue sources in this Fund include parking taxes (interfund transfers in from the Street Fund), fuel taxes and federal, state and local grants.

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

Proprietary funds (enterprise and internal service funds) distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for proprietary funds consist of the cost of sales and services, including maintenance and operations, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The City reports the following major proprietary funds:

The Surface Water Utility Fund (#403) accounts for the cost of maintaining the City's storm drainage system. Activities which are primarily supported through user charges include administration, operations, maintenance, repairs and debt service. In addition, the fund accounts for capital improvements to the City's storm drainage system. (Note: The Surface Water Construction Fund #406 was merged with the Surface Water Utility Fund in 2014).

The City reports an internal service fund as follows:

The Equipment Rental Fund (#501) accounts for the costs of maintaining and repairing all City vehicles and auxiliary equipment except for fire apparatus and police vehicles. This Fund also accumulates resources for the future replacement of existing vehicles and equipment.

During the course of operations, the City has activity between funds for various purposes. While these balances are reported in the fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities (i.e. the governmental and internal service funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column. Similarly, balances between the funds included in the business-type activities (i.e. enterprise funds) are eliminated so that only the net amount is included as internal balances in the business-type activities column. The interfund activities for the City's Equipment Rental Fund have been eliminated in the government-wide financial statements.

Further, certain activity occurs during the year involving transfers of resources between funds. In the fund financial statements, these amounts are reported at gross amounts as transfers in and transfers out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds within the governmental activities column are eliminated so that only the net amount of the transfers is included. Similarly, balances between the funds within the business-type activities column are eliminated, so that only the net amount is included as transfers.

D. Budgetary Information

1. Scope of the Budget

The City of SeaTac budgets in accordance with the provisions of the Revised Code of Washington (RCW) 35A.34. Biennial appropriated budgets are adopted for most of the City funds as follows: the General Fund, Special Revenue Funds (Street, Contingency Reserve Fund, Port of Seattle ILA, Transit Planning, Hotel/Motel Tax, Building Management, Facility Repair and Replacement & Des Moines Creek Basin ILA Fund), Debt Service Funds (Special Assessment Debt, LID Guarantee, 2009 LTGO Refunding Bonds & SCORE Bond Fund), Capital Project Funds (Municipal Capital Improvement, Fire Equipment Capital Reserve, Municipal Facilities CIP, Transportation CIP and Light Rail CIP), Enterprise Funds (Surface Water Utility) and the Internal Service Fund (Equipment Rental).

In June 2012, the City Council passed Ordinance No. 12-1010 authorizing the change to biennial budgeting effective for the budget years of 2013 – 2014. A biennial budget was adopted by Ordinance No. 12-1018 in November 2012.

Budgets for the General, special revenue, debt service and capital project funds are adopted on the modified accrual basis of accounting. For governmental funds, there are six funds (General Fund, Contingency Reserve Fund, Port of Seattle ILA Fund, Transit Planning Fund, Building Management Fund and the Facility Repair & Replacement Fund) with differences between the budgetary basis and generally accepted accounting principles (GAAP). Specific details on these differences can be found in

the RSI (Required Supplementary Information). Budgetary accounts are integrated into the City's accounting system in all budgeted funds and any unexpended appropriations lapse at the end of the two year biennial period.

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

2. Amending the Budget

The City's biennial budget is adopted at the fund level by ordinance. When the City Council determines that it is in the best interest of the City to increase or decrease the total appropriation for a particular fund, it may amend the budget by ordinance. The City Manager is authorized to transfer budgeted amounts below fund level, if necessary.

The budgetary comparison schedules located in the Required Supplementary Information Section include original and final budget information. The original budget is the first complete two year appropriated budget. The final budget is the original two year budget adjusted by all supplemental appropriations, transfers, allocations and other legally authorized changes applicable to the two fiscal years combined.

3. Excess of Expenditures over Appropriations

There were no City funds in which expenditures exceeded appropriations.

4. Deficit Fund Net Position

There were no City funds with deficit fund net positions.

E. Assets, Liabilities, Fund Balance, Net Position

1. Cash and Cash Equivalents

It is the City's policy to invest all temporary cash surpluses. At December 31, 2014, the City had holdings of \$45,152,457 (as shown in the table below) in short-term residual investments of surplus cash. This amount is classified on the balance sheet as cash and cash equivalents in various funds. Included in this category are all funds invested in the State Treasurer's Local Government Investment Pool. The interest on these investments is credited to all funds based on ownership of the investments with the exception of the LID Guarantee Fund. The interest on this fund is allocated to the General Fund.

At December 31, 2014, the City's total cash and cash equivalents (including cash restricted for debt) consisted of the following:

Bank of America, General Fund Checking Account	\$5,422,349
Bank of America, Municipal Court Checking Account	39,007
Cash with Kidder Mathews	39,156
Cash Equivalents with State Treasurer's Investment Pool	39,642,045
City Hall Postage Meter Fund.....	8,000
Petty Cash/Change Funds	<u>1,900</u>
Total Cash and Cash Equivalents	<u>\$45,152,457</u>

The amount reported as cash and cash equivalents also includes compensating balances maintained with certain banks in lieu of payments for services rendered. The average compensating balance maintained was \$14 million.

For purposes of the Statement of Cash Flows, proprietary funds consider all highly liquid investments purchased with a maturity of three months or less to be cash equivalents. Cash and cash equivalents include cash on deposit with financial institutions in both demand and time deposit accounts and amounts invested in the Local Government Investment Pool. Additional information is presented in Note 4 Deposits and Investments.

2. **Investments (See Deposits and Investments Note 4)**

Investments are reported in the financial statements at fair value. Washington State statutes provide for the City to hold investments consisting of obligations of the U.S. Government, repurchase agreements, prime banker's acceptances, and time certificates of deposit issued by Washington State depositories that participate in the Washington State Public Depository Protection Pool (PDPC). The PDPC is a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission. Additional information is presented in Note 4 Deposits and Investments.

3. **Receivables**

Taxes receivable includes property taxes which are levied and become an enforceable legal claim/lien on January 1st. Property tax payments can be paid in two installments due on April 30th and October 31st. Collections are distributed daily to the City. (See Note 5 Property Taxes for additional information). Other taxes receivable consist of sales taxes, hotel/motel taxes, gambling taxes, real estate excise taxes, motor vehicle fuel taxes, leasehold excise taxes and parking taxes. Accrued interest receivable consists of amounts earned on investments at the end of the year.

Special assessments are recorded when levied. Special assessments receivable consist of current and delinquent assessments and related interest and penalties. Unavailable revenue, classified as a deferred inflow of resources on the fund financial statements, consists of unbilled and delinquent special assessments that can become liens against the property benefited. As of December 31, 2014, \$23,069 in special assessments receivable were delinquent. Interest and penalties on these delinquent receivables totaled \$6,411.

Customer accounts receivable consists of amounts owed from private individuals or organizations for goods and services including amounts owed for which billings have not been prepared.

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

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as interfund loans receivable/payable or advances to/from other funds. All other outstanding balances between funds are reported as due to/from other funds. Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as internal balances. A separate schedule of interfund loans receivable and payable is furnished in Note 15 Interfund Balances and Transfers.

Advances between funds (long-term interfund loans), as reported in the fund financial statements, are offset by a nonspendable fund balance account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources. There were no interfund loans or advances outstanding in 2014.

5. Inventories

All inventories of the City consist of expendable supplies held for consumption. These costs are recorded as expenditures at the time individual inventory items are purchased. The amount outstanding at the end of the reporting period is immaterial and is, therefore, not included on the balance sheet. Inventories in the enterprise and internal service funds are recorded in this manner because the majority of the supplies and service related expenses of these funds are purchased and consumed at the time of purchase.

6. Restricted Assets and Liabilities

There are no restricted assets in the proprietary funds. Any specific debt service reserve requirements are described in Note 10 Long-Term Debt.

7. Capital Assets

Capital assets, which include construction in progress, land, buildings, equipment, vehicles, software, easements, other improvements and infrastructure assets (e.g. roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$5,000 and a life greater than four years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Major repairs are capitalized if they result in betterments/improvements. When the costs of improvements are substantial and/or when there is a change in the estimated useful life of an asset, the costs are capitalized. The costs for normal maintenance and repairs are not capitalized but instead are expensed as they are incurred.

Major outlays for capital improvements and infrastructure are capitalized as projects are constructed. Interest incurred during the construction phase of the capital assets of business-type activities is included as part of the capitalized value of the asset constructed. No interest expense was incurred by the City during the fiscal year. Infrastructure, other improvements, buildings, equipment, etc. are depreciated using the straight line depreciation method. Depreciation for assets reported in business-type columns includes a 10% salvage value. Land and construction in progress are not depreciated.

The following table summarizes asset capitalization thresholds and service life:

Capital Asset Classes	Capitalization Threshold	Estimated Service Life
Construction in Progress	Capitalize All	Not Depreciated
Land & Land Improvements	Capitalize All	Not Depreciated
Intangible Assets – Perpetual Easements	\$5,000	Not Depreciated
Intangible Assets – Easements	\$5,000	Varies Based on Easement
Intangible Assets – Software	\$5,000	4 Years
Equipment/Vehicles	\$5,000	4 - 20 Years
Buildings/Building Improvements	\$25,000	10 - 40 Years
Other Improvements	\$25,000	20 - 50 Years
Surface Water Utility Improvements	\$25,000	50 Years
Transportation Infrastructure	\$100,000	10 - 50 Years

Additional information is presented in Note 6 Capital Assets.

8. Deferred Outflows/Inflows of Resources

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

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and, therefore, will not be recognized as an inflow of resources (revenue) until that time. The government has one type of item, unavailable revenue, which arises only under a modified accrual basis of accounting and qualifies for reporting in this category. Accordingly, unavailable revenue is only reported on the governmental funds' Balance Sheet. The governmental funds reported unavailable revenues from the following sources: property taxes, grants, Interlocal revenues, operating leases, permits, special assessments (current & delinquent), special assessment interest & penalties and court fines. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

9. Compensated Absences

The City records an estimated liability for unused vacation, sick leave, floating holiday and compensatory time. Generally, upon separation from employment (excludes International Association of Firefighter (IAFF) employees) employees receive payment equal to 25% of their accrued and unused sick leave up to a 64 hour maximum. The sick leave cash out does not apply to employees who leave during their probationary period or are on the annual Sick Leave Cash-Out Program. It is the City's policy that payment for accumulated vacation and sick leave be based on the employee's last hourly rate of pay. The City's policy for vacation allows for a maximum accumulation and payment equal to the amount of vacation time the employee could have earned over a period of two years at the employee's current rate of accrual. Compensatory time can also be accrued up to a maximum of 80 hours.

In September 2013, the City Council authorized the City Manager to execute an Interlocal Agreement between the City of SeaTac and the Kent Fire Department Regional Fire Authority (Kent RFA) to establish a contractual fire services consolidation effective January 1, 2014. In March 2014, a Memorandum of Understanding (MOU) was signed between the City and the Kent RFA. The MOU set the amount that the City paid for accrued leave balances at \$1,162,124. This amount reduced the year-end compensated absences liability total for governmental-activities in the government-wide Statement of Net Position.

At the end of 2014, total compensated absences liability was \$929,203 and included accumulated unused vacation, sick leave, floating holiday and compensatory time for governmental activities. This liability has been reported in the government-wide Statement of Net Position. It is estimated that \$46,460 of this liability will be due within one year. No current liability has been recorded for compensated absences in the governmental funds.

Accumulated amounts for compensated absences, including vacation, sick leave, floating holiday and compensatory time benefits, are accrued as expenses as incurred in proprietary funds. The total liability amount in the City's Surface Water Utility Fund at December 31, 2014 was \$25,892. It is estimated that \$1,295 of this liability will be due within one year. Additionally, the Equipment Rental Fund has an estimated total compensated absences liability at year-end of \$6,529 and it is estimated that \$326 of this liability will be due within one year. The Equipment Rental compensated absence liability has been

included in the governmental activities column of the government-wide Statement of Net Position.

10. **Other Accrued Liabilities**

These accounts consist of accrued employee benefits.

11. **Long-Term Debt (See Long-Term Debt Note 10)**

All payables, accrued liabilities and long-term obligations from governmental funds are reported in the government-wide financial statements. All payables, accrued liabilities and long-term obligations payable from proprietary funds are reported in the proprietary fund financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. Bonds, capital leases and long-term loans are recognized as liabilities of the governmental fund when due. Additional information and debt schedules are presented in Note 10 Long-Term Debt.

12. **Unearned Revenues**

This account includes amounts recognized as receivables but not revenues because the revenue recognition criteria have not been met.

13. **Fund Balance Classification**

Fund balance in the governmental funds represents the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources. GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, states that governmental funds should report fund balance in classifications that comprise a hierarchy based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in these funds can be spent. Governments, such as the City of SeaTac, that do not have policies or procedures comparable to the GASB Statement No. 54 policies that underlie the classifications, would not report amounts in all possible fund balance classifications. Since the City does not have fund balance classification policies or procedures, no amounts were reported as committed. Therefore, the flow assumption or order of spending within unrestricted fund balance would be assigned and then unassigned since the City does not have anything reported as committed.

The following are the fund balance classifications as defined by GASB Statement No. 54:

Nonspendable: Amounts that cannot be spent because they are not in spendable form or are legally or contractually required to be maintained intact. “Not in spendable form” includes items that are not expected to be converted to cash like inventories and prepaid amounts. It may also include long-term amounts of loans and notes receivable, as well as property acquired for resale, depending on how the proceeds from the collection of the receivables or sale of those properties would be classified.

Restricted: Fund balance should be reported as restricted when 1) constraints placed on the use of the resources are either externally imposed by creditors, grantors, contributors or laws or regulations of other governments or 2) imposed by law through constitutional provisions or enabling legislation. For purposes of determining the composition of ending fund balance, the City reviews restricted resources to ensure that expenditures meet the requirements of the restricted resources. The City then confirms available restricted balances and utilizes these balances as deemed appropriate. Otherwise, available unrestricted (includes committed, assigned or unassigned) amounts will be utilized.

Committed: Amounts that can only be used for specific purposes pursuant to constraints imposed by a formal action (passage of an ordinance) to establish (and modify or rescind) the commitments of the government’s highest level of decision-making authority (the City Council). At this time, the City has no written policy or procedure on committing fund balance.

Assigned: Amounts that are restrained by the government’s intent to be used for specific purposes, but are neither restricted nor committed, should be reported as assigned fund balance. Intent should be expressed by the governing body itself (the City Council) or a body or official to which the governing body has delegated the authority (authority has not been delegated) to assign amounts to be used for specific purposes. Assigned fund balance includes: a) all remaining amounts (except for negative balances) that are reported in governmental funds, other than the General Fund, that are not classified as nonspendable and are neither restricted nor committed and b) amounts in the General Fund that are intended to be used for a specific purpose. By reporting particular amounts that are not restricted or committed in a special revenue, capital projects, debt service, or permanent fund, the City has assigned those amounts to the purposes of the respective funds. At this time, the City has no written policy or procedure on assigning fund balance and no City official has formally been authorized to make assignments.

Unassigned: Residual classification for the General Fund. This classification represents fund balance that has not been assigned to other funds and has not been restricted, committed, or assigned to specific purposes within the General Fund.

14. Minimum Fund Balance

For the General Fund, the City has established a minimum fund balance policy of three months (25%) of General Fund operating expenditures (excluding transfers out) via the adoption of the biennial budget ordinance. No other funds have a formally adopted minimum fund balance policy.

F. Other

1. Stabilization Arrangements

Per Ordinance #90-1027, the City established the Contingency (Reserve) Fund (#103) which is funded with general and unrestricted revenues of the City as the City Council deems appropriate. The Contingency Fund can be used to meet any municipal expenditure, the necessity or extent of which could not have been foreseen or reasonably evaluated at the time the budget was adopted or to provide money for emergencies. The total amount accumulated in the fund at any time shall not exceed the equivalent of thirty-seven and one-half cents per thousand dollars (\$0.375/\$1,000) of assessed valuation of property within the City. Moneys in the Fund shall be withdrawn and transferred to the appropriate operating fund only upon authorization of the City Council, through an ordinance amending the budget adopted by an affirmative vote of the majority of the entire Council, clearly stating the facts constituting the reason for the withdrawal or the emergency as the case may be, and specifying the fund to which the drawn money shall be transferred. At the end of 2014, the Contingency Fund had a cash balance of \$776,409. As per GASB Statement No. 54, the Contingency Fund has been reported with the General Fund in the governmental fund financial statements. A stabilization fund can only be reported as a separate special revenue fund if the resources in the fund are derived from a special restricted or committed revenue source.

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

A. Explanation of Certain Differences Between the Proprietary Fund Statement of Net Position and the Government-Wide Statement of Net Position

The proprietary fund Statement of Net Position includes a reconciliation between net position – total enterprise funds and net position - business-type activities as reported in the government-wide Statement of Net Position. The description of the sole element of that reconciliation is “Cumulative adjustment to reflect the consolidation of the Equipment Rental Internal Service Fund activities as related to enterprise funds over time.” The details of the \$192,439 difference are as follows:

Internal receivable representing charges in excess of cost to business-type activities – prior years	\$204,666
Internal receivable representing charges under cost to business-type activities – current year	<u>(12,227)</u>
Net adjustment to increase net position – total enterprise funds to arrive at net position – business-type activities	<u>\$192,439</u>

NOTE 3: VIOLATIONS OF FINANCE-RELATED LEGAL OR CONTRACTUAL PROVISIONS

There have been no material violations of finance-related legal or contractual provisions.

NOTE 4: DEPOSITS AND INVESTMENTS

A. Deposits

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

B. Investments

In accordance with State law, all investments of the City's funds must be obligations of the U.S. Government, repurchase agreements, prime banker’s acceptances, and time certificates of deposit issued by Washington State depositories that participate in the Washington State Public Depository Protection Pool (PDPC).

As of December 31, 2014, the City held the investments listed below, including Investments in the State Treasurer's Local Government Investment Pool which are classified as cash and cash equivalents on City balance sheets and statements of net position. These investments are reported at fair value based on quoted market prices. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

Investment	Call Date	Maturity Date	Maturities	Recorded/ Fair Value
State Treasurer’s Local Government Investment Pool	N/A	Daily Basis	\$39,642,045	\$39,642,045
Total Investments			\$39,642,045	\$39,642,045

Interest Rate Risk: The City currently does not have a policy governing its exposure to interest rate risk, but historically the majority of the City’s investments have been in the State Treasurer’s Local Government Investment Pool which reduces the City’s interest rate risk due to the shorter term maturities of the investments in the Pool. At the end of 2014, due to low interest rates, the City had no investments outside of the LGIP. In December 2014, the LGIP’s investments had net earnings rate of .1041%.

Custodial Credit Risk: Custodial credit risk is the risk that in the event of a failure of the counterparty to an investment transaction, the City would not be able to recover the value of the investment in collateral securities. The City’s investment policy established by Resolution #95-017 states that all security transactions entered into by the City shall be conducted on a delivery versus payment basis whereby the securities are delivered to a third party, such as a safekeeping bank acting as an agent for the City, before payment is released. All of the City’s investments, excluding the State Treasurer’s Local Government Investment Pool, are held by the City’s custodial agent in the City’s name, thereby, reducing the City’s custodial credit risk.

Investments in the State Treasurer’s Local Government Investment Pool, which is a 2a7-like unrated pool, are not subject to custodial credit risk because the investments held must be evidenced by securities that exist in physical or book entry form to be exposed to this type of risk. Instead, the investment in the Pool is treated as a type of investment with a fair value equal to the net realizable value of the entity’s share of the Pool based on the Pool’s valuation method. The City has reported its total investment in the State Treasurer’s Local Government Investment Pool at fair value. The City has received assurances from the State Treasurer’s Office that the fair value of the total investment reported on the December 31, 2014 account statements is the same as the value of the pool shares.

Credit Risk: No credit rating is available for the State Treasurer’s Local Government Investment Pool because the Pool has not been rated. Although the City held no other investments during the year, the City typically buys investments rated AAA by both Standard & Poor’s and Moody’s Investors Services. The City currently does not have a policy related to credit risk.

Concentration of Credit Risk: The City’s investment policy states that the City will diversify its investments by security type and institution. No more than 30% of the City’s total investment portfolio will be invested in a single security type or deposited with a single financial institution with the exception of U.S. Treasury securities and the State Investment Pool. At year end, the City has no investment positions outside of the LGIP.

NOTE 5: PROPERTY TAXES

The King County Treasurer acts as an agent to collect property taxes levied in the County for all taxing authorities. Collections are distributed daily via wire transfer.

Property Tax Calendar

January 1 st	Taxes are levied and become an enforceable lien against properties.
February 14 th	Tax bills are mailed.
April 30 th	First of two equal installment payments is due. If taxes are less than \$50, full payment is due. (RCW 84.56.020)
May 31 st	Assessed value of property established for next year's levy at 100 percent of market value.
June 1 st	Three percent penalty assessed on the current year’s delinquent taxes. (RCW 84.56.020)
October 31 st	Second installment is due. (RCW 84.56.020)
December 1 st	Eight percent penalty assessed on the current year’s delinquent taxes. (RCW 84.56.020)

Property taxes are levied by the King County Assessor. Property taxes are billed and collected by King County Treasury Operations. First half taxes must be paid or postmarked (U.S. Postal Service postmark) by April 30th or the full year tax

becomes delinquent on May 1. Interest is 1 percent per month on the full amount due (from month of delinquency to month of payment). The penalty is 3 percent (current year tax only) on amount unpaid on June 1st, and 8 percent (current year tax only) on amount unpaid on December 1st. Second half taxes must be paid or postmarked (U.S. Postal Service postmark) by October 31st or they become delinquent on November 1st per RCW 84.56.020.

During the year, property tax revenues are recognized when cash is received. At year end, unpaid property taxes are recorded as a receivable. No allowance for uncollectible taxes is established because delinquent taxes are considered fully collectible. The portion of the property taxes that is not expected to be collected within 60 days is classified as unavailable revenue under “Deferred Inflows of Resources” in the governmental fund balance sheet.

The City may levy up to \$3.10 per \$1,000 of assessed valuation (assumes that the King County Library District is levying its statutory maximum of \$.50 per \$1,000 of assessed valuation) for general governmental services subject to the limitations below:

1% Constitutional Limit: The Washington State Constitution limits the total regular property taxes to one percent of assessed valuation or \$10 per \$1,000 of the market value. Levies for ports and public utility districts are excluded from this \$10 limit.

Statutory Maximum Rates for Districts: State law (RCW 84.52.043) establishes maximum levy rates for the various types of taxing districts. In addition, this statute establishes a maximum aggregate rate of \$5.90 per \$1,000 of assessed value for counties, cities, fire districts, library districts and certain other junior taxing districts. The State school levy for support of common schools is not subject to the \$5.90 limit, but is subject to the constitutional \$10.00 limit.

The 101% Percent Limit: Washington State law in RCW 84.55.010 limits the growth of regular property taxes to the lesser of one percent or inflation, defined by the implicit price deflator (IPD), after adjustments for new construction. Any levy by a taxing district in excess of the taxing district’s limit requires voter approval. If such a levy is approved, it becomes the base for calculation of future levies, unless approved for a limited time or purpose. The property tax growth limit applies to the regular (non-voted-approved) levies of each property taxing district. The limit does not apply to excess or voter-approved levies, such as local school maintenance and operation levies and levies to retire bond issues.

When Rates are Exceeded: The statutes establish a district hierarchy for rate reductions if the aggregate limits are exceeded and rates are reduced accordingly.

The City’s property tax levy rate was \$3.10 per \$1,000 of assessed value. Based on a City-wide assessed valuation of \$4,037,202,415 the total property tax levy for 2014 was \$12,542,506. (Note: Property taxes collected in 2014 are based on the 2013 assessed valuation).

NOTE 6: CAPITAL ASSETS

A. Capital Assets for Governmental Activities

Capital assets are long-lived assets obtained or controlled as a result of past transactions, events or circumstances. Capital assets include buildings, equipment and software, improvements other than buildings, infrastructure, land, capital easements and construction in progress.

Beginning in 2003, the City was required by GASB Statement No. 34, Basic Financial Statements and Management’s Discussion and Analysis for State and Local Governments, to start reporting capital assets used in governmental activities in the government-wide Statement of Net Position. Governmental capital assets are not reported in the fund balance sheets but are recorded as expenditures in the year purchased. Capital assets were previously reported in the General Fixed Assets Account Group, which was eliminated by GASB Statement

No. 34. In addition, GASB Statement No. 34 required the City to depreciate its governmental capital assets. The depreciation expense for these assets is recorded in the government-wide Statement of Activities and not in the fund financial statements. The City uses the straight-line method of depreciation with no salvage value for its governmental capital assets.

In 2014, the City transferred \$296,218 in surface water utility assets out of governmental-activities into the Surface Water Utility Fund #403 from infrastructure work completed on the South 168th Street Pedestrian project. In addition, the Surface Water Utility Fund purchased additional equipment for the vector truck and then transferred this equipment into the Equipment Rental Fund in the amount of \$11,131.

The table below summarizes the changes in the City's governmental capital assets during 2014. Please note that \$1,449,063 (net) of internal service fund depreciated capital assets from the Equipment Rental Fund (#501) are shown in the table below and are not shown in the proprietary capital assets table. Under GASB Statement No. 34, internal service fund assets and liabilities that are not eliminated are generally included in the governmental activities column of the government-wide Statement of Net Position.

Governmental Activities Capital Assets	Beginning Balance 01/01/2014	Increases	Decreases	Transfers In/ (Out)	Ending Balance 12/31/2014
Capital assets not being depreciated:					
Land	\$320,618,253	\$3,790,227	\$0	\$0	\$324,408,480
Intangible Assets–Easements	91,841	36,137	0	0	127,978
Construction in Progress (CIP)	6,746,278	9,413,472	(2,753,690)	(296,218)	13,109,842
Total assets not being deprec.	327,456,372	13,239,836	(2,753,690)	(296,218)	337,646,300
Capital assets being depreciated:					
Buildings/Bldg Improvements	43,714,449	214,146	0	0	43,928,595
Other Improvements	10,256,077	2,169,286	0	0	12,425,363
Infrastructure	82,441,994	802,493	0	0	83,244,487
Equipment/Vehicles	5,837,190	0	(3,845,597)	0	1,991,593
Equipment/Vehicles (Eq Rental)	3,209,824	245,175	(48,514)	11,131	3,417,616
Intangible Assets-Software	922,460	37,635	(230,344)	0	729,751
Total assets being depreciated	146,381,994	3,468,735	(4,124,455)	11,131	145,737,405
Total governmental capital assets before depreciation	\$473,838,366	\$16,708,571	\$(6,878,145)	\$(285,087)	\$483,383,705
Less accumulated depreciation for:					
Buildings/Bldg Improvements	(13,530,559)	(1,810,399)	0	0	(15,340,958)
Other Improvements	(5,210,780)	(565,433)	0	0	(5,776,213)
Equipment/Vehicles	(3,964,679)	(109,809)	2,519,130	0	(1,555,358)
Equipment/Vehicles (Eq Rental)	(1,815,613)	(196,601)	43,663	0	(1,968,551)
Infrastructure	(50,502,409)	(2,512,097)	0	0	(53,014,506)
Intangible Assets-Software	(736,955)	(31,307)	230,344	0	(537,918)
Total accumulated depreciation	(75,760,995)	(5,225,646)	2,793,137	0	(78,193,504)
Total governmental activities capital assets (net)	\$398,077,371	\$11,482,925	\$(4,085,008)	\$(285,087)	\$405,190,201

Depreciation expense was charged in the government-wide Statement of Activities for the following governmental activities by function:

Governmental Activities:	
Judicial	\$2,338
General Government	517,094
Public Safety	256,139
Physical & Economic Environment	934,046
Transportation	2,538,891
Transportation (Equipment Rental – Internal Service Fund)	196,601
Culture & Recreation	780,537
Total Depreciation Expense-Governmental Activities	\$5,225,646

B. Capital Assets for Business-type Activities

Capital assets for the business-type proprietary funds are capitalized in their respective Statement of Net Position. These assets are stated at cost, estimated historical cost when original cost is not available, or fair market at the time received in the case of contributions. Depreciation expense is charged to the operations of proprietary funds to allocate the cost of fixed assets over their estimated useful lives, using the straight-line method with useful lives of 5 to 50 years. A salvage value of 10% is used for the City’s proprietary fund capital assets.

The following schedule summarizes the capital asset data for business-type proprietary funds for 2014:

Business-Type Activities Capital Assets	Beginning Balance 01/01/2014	Increases	Decreases	Transfers In & (Out)	Ending Balance 12/31/2014
Capital assets not being depreciated:					
Construction in Progress	\$0	\$29,931	\$0	\$0	\$29,931
Intangible Assets-Easements-SWM	35,442	0	0	0	35,442
Total assets not being depreciated	35,442	29,931	0	0	65,373
Capital assets being depreciated:					
Buildings-SWM	228,560	0	0	0	228,560
Other Improvements-SWM	32,180,597	0	0	296,218	32,476,815
Equipment-SWM	0	11,131	0	(11,131)	0
Intangible Assets-Software-SWM	101,336	0	0	0	101,336
Total assets being depreciated	32,510,493	11,131	0	285,087	32,806,711
Total business-type capital assets before depreciation	\$32,545,935	\$41,062	\$0	\$285,087	\$32,872,084
Less accumulated depreciation for:					
Buildings	(46,152)	(5,161)	0	0	(51,313)
Other Improvements	(6,112,046)	(625,171)	0	0	(6,737,217)
Intangible Assets-Software	(65,771)	(25,431)	0	0	(91,202)
Total accumulated depreciation	(6,223,969)	(655,763)	0	0	(6,879,732)
Total bus-type capital assets (net)	\$26,321,966	\$(614,701)	\$0	\$285,087	\$25,992,352

In 2014, the Surface Water Utility Fund purchased vector truck related equipment and transferred the equipment into the Equipment Rental Fund in the amount of \$11,131. Additionally, \$296,218 in surface water management assets were transferred into the Surface Water Utility Fund from the Transportation Capital Improvement Fund from work completed on the South 168th Street Pedestrian Project.

Depreciation expense was charged to functions/programs of the business-type activities as follows:

Business-type Activities:	
Utilities/Physical Environment (Surface Water Utility)	\$655,763
Total Depreciation Expense-Business-type Activities	\$655,763

C. Construction Commitments

The following table describes the active construction projects on December 31, 2014 and the City’s commitment with the contractors:

Project	Spent to Date	Remaining Commitment
CH2M Hill Engineers, Inc. – Connecting 28 th /24 th Avenue South – Engineering	\$2,342,091	\$186,406
CH2M Hill Engineers, Inc. – S 204 th St Pond – Engineering	\$29,931	\$5,282
Johansen Excavating, Inc. - Military Road South/South 176 th to South 166 th – Construction	\$8,501,986	\$236,863
TCA Architecture - Fire Station #45 - Architect (Estimated based on estimated construction costs)	\$364,162	\$91,040
Hoffman Construction – S 179 th Street Sidewalk - Construction	\$1,335,322	\$47,034
Parametrix, Inc. – 37 th & 40 th Ave South Sidewalks – Engineering	\$127,222	\$114,305
Total Outstanding Construction Commitments	\$12,700,714	\$680,930

NOTE 7: PENSION PLANS

Substantially all City 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.¹ The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to: Department of Retirement Systems, Communications Unit, P.O. Box 48380, Olympia, WA 98504-8380; or it may be downloaded from the DRS website at www.drs.wa.gov.

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

Plan Description

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

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

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

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

PERS Plan 1 and Plan 2 retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the PERS Plan 1 and Plan 2 defined benefit plans accrue interest at a rate specified by the Director of DRS. During DRS' Fiscal Year 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.

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 the age of 65. This option is available only to those who are age 55 or older and have at least 30 years of service.

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

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

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

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

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

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

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

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

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

PERS Plan 2 and Plan 3 provide disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 monthly benefit amount is 2 percent of the AFC per year of service. For Plan 3, the monthly benefit amount is 1 percent of the AFC per year of service. These disability benefit amounts are actuarially reduced for each year that the member’s age is less than 65, and to reflect the choice of a survivor option. There is no cap on years of service credit, and a cost-of-living allowance is granted (based on the Consumer Price Index) capped at 3 percent annually.

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

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

From January 1, 2007 through December 31, 2007, judicial members of PERS were given the choice to elect participation in the Judicial Benefit Multiplier (JBM) Program enacted in 2006. Justices and judges in PERS Plan 1 and Plan 2 were able to make an irrevocable election to pay increased contributions that would fund a retirement benefit with a 3.5 percent multiplier. The benefit would be capped at 75 percent of AFC. Judges in PERS Plan 3 could elect a 1.6 percent of pay per year of service benefit, capped at 37.5 percent of AFC.

Newly elected or appointed justices and judges who chose to become PERS members on or after January 1, 2007, or who had not previously opted into PERS membership, were required to participate in the JBM Program.

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

PERS Membership	
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
Active Plan Members Non-vested	101,191
Total PERS Members	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.

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

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

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

Members not participating in JBM (includes the City of SeaTac):

	<u>PERS Plan 1</u>	<u>PERS Plan 2</u>	<u>PERS Plan 3</u>
Employer¹	9.21% ²	9.21% ²	9.21% ³
Employee	6.00% ⁴	4.92% ⁴	Varies ⁵

¹The employer rates include the employer administrative expense fee currently set at 0.18%.

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

³The Plan 3 defined benefit portion only.

⁴The employee rate for State elected officials is 7.50% for Plan 1 and 4.92% for Plan 2.

⁵Variable from 5.0% minimum to 15.0% maximum based on rate selected by the PERS 3 member.

Members participating in JBM:

	<u>PERS Plan 1</u>	<u>PERS Plan 2</u>	<u>PERS Plan 3</u>
Employer-State Agency¹	11.71%	11.71%	9.71% ²
Employer-Local Gov¹	9.21%	9.21%	7.21% ²
Employee-State Agency	9.76%	9.80%	7.50% ³
Employee-Local Gov	12.26%	12.30%	7.50% ³

¹The employer rates include the employer administrative expense fee currently set at 0.18%.

²Defined benefit portion only.

³Minimum rate.

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

	<u>PERS Plan 1</u>	<u>PERS Plan 2</u>	<u>PERS Plan 3</u>
2014	\$8,965	\$776,365	\$60,130
2013	\$9,512	\$678,282	\$56,948
2012	\$7,746	\$512,077	\$35,832

B. Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) - Plans 1 and 2

Plan Description

LEOFF was established in 1970 by the Legislature. Membership includes all full-time, fully compensated, local law enforcement commissioned officers, firefighters and, as of July 24, 2005, emergency medical technicians. LEOFF membership is comprised primarily of non-state employees, with Department of Fish and Wildlife enforcement officers, who were first included effective July 27, 2003, being an exception. LEOFF retirement benefit provisions are established in Chapter 41.26 RCW and may be amended only by the State Legislature.

LEOFF is a cost-sharing multiple-employer retirement system comprised of two separate defined benefit plans. LEOFF members who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 are Plan 2 members.

Effective July 1, 2003, the LEOFF Plan 2 Retirement Board was established by Initiative 790 to provide governance of LEOFF Plan 2. The Board’s duties include adopting contribution rates and recommending policy changes to the Legislature.

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

LEOFF Plan 1 members are vested after the completion of five years of eligible service. Plan 1 members are eligible for retirement with five years of service at the age of 50. The benefit per year of service calculated as a percent of final average salary (FAS) is as follows:

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

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

LEOFF Plan 1 provides death and disability benefits. Death benefits for survivors of Plan 1 members on active duty consist of the following: (1) If there is an eligible spouse, 50 percent of the FAS, plus 5 percent of the FAS for each eligible surviving child, with a limitation on the combined benefit of 60 percent of the FAS; or (2) If there is no eligible spouse, eligible children receive 30 percent of the FAS for the first child plus 10 percent for each additional child, subject to a 60 percent limitation of the FAS, divided equally.

A one-time duty-related death benefit is provided to the beneficiary or the estate of a LEOFF Plan 1 member who dies as a result of injuries or illness sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of the member’s covered employment, if found eligible by the Department of Labor and Industries.

The LEOFF Plan 1 disability benefit is 50 percent of the FAS plus 5 percent for each child up to a maximum of 60

percent. Upon recovery from disability before the age of 50, a member is restored to service with full credit for service while disabled. Upon recovery after the age of 50, the benefit continues as the greater of the member's disability benefit or service retirement benefit.

LEOFF Plan 2 members are vested after the completion of five years of eligible service.

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

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

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

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

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

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

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

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

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

There are 374 participating employers in LEOFF. Membership in LEOFF consisted of the following as of the

latest actuarial valuation date for the plans of June 30, 2013:

LEOFF Membership	
Retirees and Beneficiaries Receiving Benefits	10,511
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	699
Active Plan Members Vested	16,830
Active Plan Members Nonvested	1,600
Total LEOFF Members	29,640

Funding Policy

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

The Legislature, by means of a special funding arrangement, appropriates money from the state General Fund to supplement the current service liability and fund the prior service costs of Plan 2 in accordance with the recommendations of the Pension Funding Council and the LEOFF Plan 2 Retirement Board. This special funding situation is not mandated by the state constitution and this could be changed by statute. For DRS' Fiscal Year 2014, the state contributed \$55.6 million to LEOFF Plan 2.

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

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

	<u>LEOFF Plan 1</u>	<u>LEOFF Plan 2</u>
Employer¹	0.18%	5.23% ²
Employee	0.00%	8.41%
State	N/A	3.36%

¹The employer rates include the employer administrative expense fee currently set at 0.18%.

²The employer rate for ports and universities is 8.59%.

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

	<u>LEOFF Plan 1</u>	<u>LEOFF Plan 2</u>
2014	\$0	\$0
2013	\$0	\$259,939
2012	\$0	\$235,266

C. City of SeaTac Money Purchase Retirement Trust

The City of SeaTac Money Purchase Retirement Trust is a defined contribution plan which was established as an alternative to the federal Social Security System. By unanimous vote of City employees, and with an effective date of September 1, 1990, this alternative plan was designed to provide the employees with benefits that equal or exceed the present Social Security system including inflation. The Trust Plan includes the following benefits: disability benefits, survivor benefits for spouse and children, lump sum death benefits, and retirement and investment benefit options. Contributions into the plan are not subject to federal income taxation as is the case with Social Security contributions.

All full-time employees are required to participate. Under this program, employees contribute 6.2% of their salary into a deferred savings account. The City contributes, on behalf of each employee, an amount equal to what the City would have paid to Social Security. This amount is a composite of a cash match (approximately 4.915%) and insurance payments (approximately 1.285%) for disability, survivor, accidental death and dismemberment, and lump sum death benefit coverages.

As of December 31, 2014, there were 118 active members in the City of SeaTac Retirement Trust. Actual employee contributions during the year amounted to \$534,884. Actual employer contributions were \$424,026.

Actuarial determinations are not required because (1) long-term disability and survivor income insurance are provided by a group insurance policy with Standard Insurance Company; and (2) benefits paid to participants upon retirement are limited to (a) a non-forfeitable, non-transferable annuity contract purchased by the plan's trustee, (b) retirement benefits paid from the employee's deferred savings to which no contributions by the City or the participants can be added after retirement, or (c) a single lump-sum payment equal to the accumulated balance in the employee's deferred savings account as of his or her retirement date.

The City's retirement plan provisions or contribution requirements can be changed by amending the adoption agreement through approval by the City Council.

The following are the major benefits provided by the City's benefit plan:

1) Disability

Disability benefits provide 60% of compensation with a \$5,000 per month maximum. Disability benefit premiums are paid 100% by the City's contributions.

2) Survivor

Survivor benefits cease for spouse upon decree of divorce. Eligible child benefits cease on the date an unmarried child reaches age 19. If a registered student in full-time attendance at an accredited educational institution, benefits cease on the date the child reaches 25 years of age. Survivor benefit premiums are paid 100% by the City's contributions.

- a) Surviving children or spouse - Benefits will include 30% of the first \$3,000 of monthly earnings, with a monthly minimum benefit amount of \$100.
- b) Surviving children and spouse - Benefits will include 60% of the first \$3,000 of monthly earnings, with a monthly minimum benefit of \$200.

3) **Lump Sum Death Benefits**

These benefits equal 100% of annual earnings to a maximum of \$100,000, rounded to the next higher multiple of \$1,000 salary amount. The premium for this benefit is paid by the City.

4) **Retirement Benefits**

Employee and employer contributions for retirement benefits are 100% vested.

Each employee may direct his/her investment among various investment options for both employee and employer contributions. In addition, participants may borrow up to 50% of their vested (employee and employer contributions) account balance to a maximum outstanding balance of \$50,000, repayable through payroll deductions. Upon separation of service prior to retirement, all employee contributions may be withdrawn without regard to age, net of any outstanding loans. Employer contributions must be left in the plan and distributed when the participant attains age 55.

Plan assets are not the property of the City and are not subject to the claims of the City's general creditors. The program is administered by a private consulting firm, the International City Management Association (ICMA).

NOTE 8: RISK MANAGEMENT

On November 26, 2012, the City Council passed Resolution #12-011 authorizing the termination of the City's membership in the Cities Insurance Association of Washington (CIAW), and authorizing the City Manager to acquire liability and property insurance with a private insurance carrier. Termination in CIAW was effective December 31, 2012.

The City is exposed to various risks of loss such as: theft, damage, destruction of assets, errors & omissions, injuries or property damage to others, and natural disasters. The City purchases commercial insurance for potential claims and lawsuits. The City has not had any significant reduction in insurance coverage from the previous year, and insurance settlements have not exceeded insurance coverage for the past three fiscal years (2012, 2013, and 2014).

The City's commercial insurance policies, limits, and deductibles are as follows:

Coverage Type	Limits	Deductible
Property-Blanket Building & Contents	\$53,963,332	\$2,500
Earth Movement	\$2,000,000	5%/\$100,000
Flood	\$1,000,000	\$50,000
Employee Theft	\$1,000,000	\$10,000
General Liability	\$1,000,000 per occurrence/ \$2,000,000 aggregate	\$5,000
Employment Practices Liability	\$1,000,000	\$10,000
Auto Liability	\$1,000,000	\$5,000
Umbrella Excess Liability	\$9,000,000	(Excess of general & auto liability)
Employee Benefit Liability	\$1,000,000	\$5,000
Public Entity E&O	\$1,000,000	\$10,000

The City's industrial insurance is provided by Washington State and is administered by the Department of Labor and Industries. Coverage is purchased by means of standard rates per working hour and is computed by the total number of hours worked by employees multiplied by the basic premium rate assigned to the business risk classification. The following are benefits provided by industrial insurance: medical services, damaged clothing, travel expenses, time-loss payments, vocational rehabilitation, partial disability awards, pension awards and survivor benefits.

The City's unemployment insurance is through the Federal/State system, which provides some compensation to workers who are temporarily and involuntarily unemployed. It is administered in Washington State by the Employment Security Department in accordance with the provisions of the Employment Security Act. The City's employer status for unemployment insurance is as a "taxable" employer.

There were no significant reductions in insurance coverage from 2013 in any of the major categories of risk. Also, the amounts of settlements have not exceeded insurance coverage in any of the past three fiscal years.

NOTE 9: SHORT-TERM DEBT

As of December 31, 2014, the City had no short term debt outstanding. Additionally, there was no short term debt activity during the year.

NOTE 10: LONG-TERM DEBT

A. General Obligation Bonds

General obligation bonds are a direct obligation of the City for which its full faith and credit are pledged. Debt service (principal, interest and fees) is paid out of "debt service funds". Debt service for City Council authorized debt (councilmanic issues) is currently funded with hotel/motel taxes. Outstanding general obligation debt is reported in the government-wide Statement of Net Position and not in the fund financial statements.

On December 22, 2009, the City issued par value Limited Tax General Obligation Refunding Bonds, in the amount of \$4,215,000. The proceeds from the sale were used to refund (current refunding) the following bonds totaling \$4,300,000: 1) \$2,755,000 of the City's Limited Tax General Obligation (Hotel/Motel Tax) Bonds, 1998 maturing on December 1 in years 2010 through 2018 (the "1998 Refunded Bonds") and 2) \$1,545,000 of the City's Limited Tax General Obligation Refunding Bonds, 1998 maturing on December 1 in years 2010 through 2013 (the "1998 Refunding Refunded Bonds"), which are paid off in full.

B. Special Obligation Bonds

In November 2009, the South Correctional Entity Facility Public Development Authority (the "SCORE PDA") issued \$86 million in special obligation bonds to carry out the facility development project. SCORE issued Series 2009A (tax exempt) bonds in the amount of \$8,205,000 and Series 2009B (taxable Build America Bonds) bonds in the amount of \$78,030,000. The City of SeaTac is contractually obligated for paying \$246,150 and \$2,340,900, respectively, which equates to 3% of the outstanding bonds. These bonds were issued for the purpose of providing money to pay part of the costs of construction and acquisition of certain improvements to a jail facility. The Series 2009A bonds are payable semi-annually with interest-only payments until January 1, 2015, when annual principal payments will be required. The final payment will be January 1, 2022. The Series 2009B bonds are payable semi-annually with interest-only payments until January 1, 2013, when annual principal payments will also be required. The final payment will be January 1, 2039. The SCORE bonds are secured by the irrevocable full faith and credit obligation of the cities of Auburn, Burien, Federal Way, Renton, SeaTac and Tukwila (the "Owner Cities"). Additional information on the City's joint venture with SCORE is presented in Note 17 - Joint Ventures – South Correctional Entity (SCORE).

General obligation and special obligation bond debt outstanding as of the end of 2014 are listed in the table below:

Description/ Range of Maturities	Interest Rate	Original Issue Amount	Amount Outstanding
2009 LTGO Refunding (2010 – 2018) Portion that Refunded the 1998 Hotel/Motel Bonds	2.00% - 4.00%	\$2,675,000	\$1,255,000
Total General Obligation Bonds		\$2,675,000	\$1,255,000
2009 South Correctional Entity Facility Public Development Authority Bonds Series 2009A Bonds (2015/2016/2017/2021/2022)	4.00% - 5.00%	\$246,150	\$246,150
2009 South Correctional Entity Facility Public Development Authority Bonds Series 2009B Bonds (Taxable Build America Bonds – Direct Payment) (2013/2014/2016/2018-2021/2022-2039)	3.001% - 6.616%	\$2,340,900	\$2,224,950
Total Special Obligation Bonds (Contractual)		\$2,587,050	\$2,471,100
Total Governmental-type Debt		\$5,262,050	\$3,726,100

The annual debt service requirements to maturity for general obligation bonds and other governmental-type debt follows below:

Governmental-type Debt					
2009 LTGO Refunding Bonds (General Obligation)			2009 SCORE Bonds (2009A & 2009B) (Contractual Special Obligation)		
Rating: Standard & Poor's AA+			Ratings: Moody's A1 & S&P AA		
Year Ending Dec 31	Principal	Interest	Year Ending Dec 31	Principal	Interest ¹
2015	300,000	47,200	2015	59,700	149,852
2016	305,000	38,200	2016	61,950	147,357
2017	320,000	26,000	2017	64,350	144,607
2018	330,000	13,200	2018	67,200	141,479
2019	0	0	2019	69,300	138,067
2020-2024	0	0	2020-2024	387,150	633,065
2025-2029	0	0	2025-2029	470,250	505,012
2030-2034	0	0	2030-2034	577,950	334,753
2035-2039	0	0	2035-2039	713,250	121,942
Total Ref Bonds	\$1,255,000	\$124,600	Total SCORE Bonds	\$2,471,100	2,316,134

¹Note: A portion of the SCORE Bonds were issued as Build America Bonds; the interest shown is the gross interest and does not net out the 35% subsidy payment SCORE expects to receive from the federal government to pay a portion of the interest payment due on the 2009 SCORE Bonds. See Note 17 – Joint Ventures – South Correctional Entity for additional information.

As of the end of 2014, the City has used 6.0% of its Councilmanic (non-voted – up to 1.5% of total taxable property) general purposes debt capacity (includes the contractual obligation for the SCORE bonds) and has \$59 million remaining in available debt capacity. For voted debt (up to 2.5% of total taxable property), the City has \$101 million in remaining debt capacity. There is currently no voted debt outstanding. (Note: If the City issued the full \$59 million of Councilmanic debt, only \$41.9 million in voted debt could be issued for general purposes.)

The City had no arbitrage rebate liability for outstanding tax exempt bonds in 2014.

At December 31, 2014, the City had \$13,789 in cash and cash equivalents in debt service funds to service the general bonded debt. Additionally, all general obligation bond proceeds have been fully expended except the debt issue for the City’s 1998 Limited Tax General Obligation Bonds (Hotel/Motel Tax Bonds) in the amount of \$5,001,021 (including the premium) which were refunded in 2009 as stated above. These bond proceeds will be used in the future for the acquisition/construction of tourism related capital facilities per Ordinance #98-1049.

C. Revenue Bonds

The City currently has no outstanding revenue bonds. At this time, there are no plans to issue new revenue bonds to fund future capital projects.

D. Special Assessment Bonds

Special assessment bonds are not a direct responsibility of the City, but are funded from the collection of special assessment installment payments. Neither the full faith and credit nor the taxing power of the City is pledged to the payment of the bonds. The City is obligated for special assessment debt to the extent that it is required to establish an LID Guarantee Fund for the purpose of guaranteeing the payment of local improvement bonds in the event there are insufficient funds in the Special Assessment Debt Fund (#204). This Fund pays the debt service principal and interest costs with installment payments from the assessments of benefiting property owners. In 2014, the LID #1 bonds were paid off in full which will allow for closure of the LID Guarantee Fund in 2015.

Delinquent assessments receivable had a balance of \$23,069 at the end of the year. The outstanding liability from the special assessment bond issue is reported in the government-wide Statement of Net Position. In 2014, no additional special assessment bonds were issued and the City had no arbitrage rebate liability.

Special assessment bonds outstanding at the end of 2014 are as follows:

Description/Range of Maturities	Interest Rate	Original Issue Amount	Amount Outstanding
Local Improvement District #1 (2001-2015)	5.00% - 6.20%	\$2,871,819	\$0
Total Special Assessment Bonds with Governmental Commitment		\$2,871,819	\$0

On December 31, 2014, the Special Assessment Debt Fund had \$269,409 in cash and the LID Guarantee Fund had \$12,500.

NOTE 11: LEASES

A. Operating Lease Receivables

The City has four cancelable lease agreements to lease out portions of the second floor in City Hall. The City also has two lease agreements to house antennas on roofs of City buildings. One antenna is on the roof of City Hall and the other one is on the roof of the SeaTac Community Center.

The City has two parking and one land lease agreement. The first parking lease is for the use of parking spaces at the old Riverton Heights School property and the second one is with Sound Transit to lease parking spaces at SeaTac Center for the South 154th Light Rail Station. The City also has a 50 year land lease agreement with the YMCA for 6.5 acres through December 31, 2054.

For the other buildings, the City has a month-to-month lease agreement for the use of 3,750 square feet of outdoor space at the Maintenance Facility with the City of Burien and a month-to-month residential lease agreement for real property located near the SeaTac Center which will be included in a redevelopment project in the future. Lastly, the City has a lease agreement for 1,800 square feet of land behind Fire Station #47 and one bay in the Station with King County Medic One.

On December 31, 2009, the City purchased a retail building (SeaTac Center) near the South 154th Street Light Rail Station for \$12.3 million. The City paid \$8.4 million for the building and \$3.9 million for the land. At the end of 2014, accumulated depreciation on the building was \$4.3 million. This building was purchased with economic development in mind and to assist the City in its planning efforts to redevelop this area in the future. The building has 61,641 square feet of retail lease space. In early 2010, the City hired a property manager to handle the leasing transactions and other property management functions for this building. At the end of December 2014, the City had 10 tenants with non-cancelable lease terms in excess of one year. A summary of the terms of the lease contracts are shown in the table below:

	Tenant #1	Tenant #2	Tenant #3		Tenant #4		Tenant #5
Square Footage	6,336	3,204	1,427	1,969	5,424	7,426	904
Commencement Date	1/1/2014	5/1/2011	9/1/2011	2/1/2011	7/1/2008	2/1/2012	3/1/2008
Termination Date	12/31/2017	4/30/2016	1/31/2016	1/31/2016	1/31/2016	7/31/2017	6/30/2016
Contract Terms	Lease extension: \$18 sq ft w/3% increase annually + 236 sq ft storage	Lease Extension: \$7,141 w/3% increase annually	Lease #1: Mths 1-3 \$0; \$20.00 sq ft w/3% increase annually	Lease #2: \$20.00 sq ft w/3% increase annually	Lease #1: \$6,328 per month for five years	Lease #2: Mths 1-6 \$0; Mths 7-42 \$5,500; Mths 43-54 \$5,950; Mths 55-66 \$6,150	\$1,124 per mth w/2% increase annually
	Tenant #6	Tenant #7	Tenant #8		Tenant #9	Tenant #10	
Square Footage	2,759	2,876	24,500		4,316	1,406	
Commencement Date	12/15/2007	1/1/2012	11/1/2012		6/1/2014	7/1/2014	
Termination Date	4/15/2018	12/31/2016	9/30/2017		5/31/2018	6/30/2018	
Contract Terms	\$19.50 sq ft w/3% increase annually	Lease Extension: \$3,387 per mth w/3% increase annually	Mths 1-4 Free Rent; Mths 5-12 \$8,000; Mths 13-24 \$15,000; Mths 25-36 \$15,450; Mths 37-48 \$15,914; Mths 49-60 \$16,391; Mths 61-64 \$16,883		First year \$4,954 per mth; Years 2-4 \$5,078 per mth	\$18.00 sq ft w/2.7% increase annually	

The following is a schedule by years of future minimum lease payments required under the operating leases shown in the table above. (Note: there are no contingent leases included in the minimum lease payments schedule.) Year ending December 31st:

2015	\$822,650
2016	638,838
2017	524,752
2018	59,221
2019	<u>0</u>
Total min lease payments required	<u>\$2,045,461</u>

NOTE 12: CHANGES IN LONG-TERM LIABILITIES

During the year ended December 31, 2014, the following changes occurred in long-term liabilities:

	Beginning Balance 01/01/14	Additions	Reductions	Ending Balance 12/31/14	Due Within One Year
Governmental Activities:					
Bonds payable:					
General obligation bonds	\$1,550,000	\$0	\$(295,000)	\$1,255,000	\$300,000
Special obligation bonds	2,529,600	0	(58,500)	2,471,100	59,700
Special assessment bonds	90,000	0	(90,000)	0	0
Add: Premium on GO bonds	56,921	0	(11,384)	45,537	11,384
Total bonds payable - net	\$4,226,521	\$0	\$(454,784)	\$3,771,737	\$371,084
Other post-employ benefits-NOO	391,489	87,947	0	\$479,436	N/A
Compensated absences	2,020,066	80,783	(1,171,646)	929,203	46,460
Compensated absences-ISF	5,286	1,243	0	6,529	326
Gov activities long-term liabilities	\$6,643,362	\$169,973	\$(1,626,530)	\$5,186,805	\$417,870
Business-type Activities:					
Compensated absences	\$34,611	\$800	\$(9,519)	\$25,892	\$1,295
Bus-type activities long-term liab	\$34,611	\$800	\$(9,519)	\$25,892	\$1,295

The liability for the other post-employment benefits is funded primarily by the General Fund. The internal service fund predominantly serves the governmental funds. Accordingly, long-term liabilities for the internal service fund are included as part of the totals for governmental activities. At year end, internal service funds had \$6,529 in estimated compensated absence liabilities. The chart above includes the City's estimate of compensated absences due within one year for both types of activities. Typically, the governmental activities estimated amount is funded out of the General Fund while the business-type activities estimated amount is funded out of the Surface Water Utility Fund.

NOTE 13: CONTINGENCIES AND LITIGATIONS

The City Attorney reports that as of December 31, 2014, a small number of tort claims and lawsuits had been filed against the City. These tort lawsuits are itemized as follows:

1. Romulo Castro v. City of SeaTac, Case No.: 14-2-30191-OKNT, King County Superior Court

Mr. Castro commenced a tort lawsuit against the City for injuries sustained at a City of SeaTac park.

It is believed that the payment of any valid claims or adverse judgments resulting from this lawsuit should be covered by insurance. It is unknown at this point whether this lawsuit has any significant probability of resulting in a Plaintiff's award.

2. K&S Developments, LLC v. City of SeaTac, Case No.: 12-2-40564-6KNT, King County Superior Court

K&S Developments commenced a lawsuit against the City on various causes of action including Inverse Condemnation, Substantive Due Process, Procedural Due Process, Equal Protection, Federal Taking, Breach of Contract, and Interference with a Business Expectancy.

It is believed that the payment of any valid claims or adverse judgments resulting from this lawsuit should be covered by insurance. It is unknown at this point whether this lawsuit has any significant probability of resulting in a Plaintiff's award.

The City Attorney has received no information, other than referenced above, and has no knowledge of any other threatened or potential claims or lawsuits which would materially affect the City's financial condition, as of the aforesaid date.

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

NOTE 14: RESTRICTED COMPONENT OF NET POSITION

The government-wide Statement of Net Position reports \$23,913,781 in restricted net assets. None of the restrictions were from enabling legislation.

NOTE 15: INTERFUND BALANCES & TRANSFERS

During 2014, the City had a number of interfund transfers. Most of the City's interfund transfers are considered nonreciprocal interfund activities and are legally authorized transfers of resources from one fund to another fund. The receiving fund accounts for the transfer in as an "other financing source" while the paying fund accounts for the transfer out as an "other financing use". Transfers are included in the operating statements of the respective funds.

The following table summarizes the interfund transfer activity for both the governmental and the proprietary funds by major fund:

		Transfers From (Out)					
Transfers To (In)	Fund	General Fund #001 ¹	Street Fund #102	SWM Utility Fund #403	Equipment Rental Fund #501 ²	Other Non-Major Funds	Totals
		General Fund #001 ¹	\$0	\$395,050	\$115,823	\$115,823	\$1,449,935
	Transportation CIP Fund #307	605,000	11,850,000	0	0	0	\$12,455,000
	Surface Water Utility Fund #403	0	0	0	0	2,520	\$2,520
	Other Non-Major Funds	250,000	0	147,092	0	0	\$397,092
	Total Cash Transfers	\$855,000	\$12,245,050	\$262,915	\$115,823	\$1,452,455	\$14,931,243
	Transfer in of capital assets:						
	To Surface Water Utility Fund #403 from Transportation Capital Improvement Fund #307						\$296,218
	To Equipment Rental Fund #501 from Surface Water Utility Fund #403						\$11,131
	Total Interfund Transfers						\$15,238,592

¹Includes special revenue funds merged into the General Fund per GASB Statement No. 54.

²Included with the governmental activities in the government-wide statements; Disclosed separately for clarity.

In the proprietary statements, the transfer in of capital assets from the governmental funds is shown as a capital contribution. When assets are purchased by governmental funds, the amounts paid for the assets are recorded as capital expenditures on the governmental Statement of Revenues, Expenditures and Changes in Fund Balance. The capital expenditures are then eliminated as part of the government-wide reconciliation process and are shown as assets on the Statement of Net Position. Capital infrastructure assets paid for by a governmental fund, the Transportation Capital Improvement Fund, were transferred out in the amount of \$296,218 to the Surface Water Utility Fund for improvements made on the South 168th Street Sidewalk Project. Additionally, the Surface Water Utility Fund transferred equipment additions for the vactor truck into the Equipment Rental Fund in 2014 in the amount of \$11,131.

The following provides a description of the City's interfund transfers by major fund:

General Fund #001

The following interfund transfers were made into the General Fund in 2014:

1. Street Fund #102 – Reimbursement of administrative costs (\$382,000) and Maintenance Facility maintenance costs (\$13,050) for a total amount of \$395,050.
2. Des Moines Creek Basin ILA Fund #111 - Reimbursement for treasury services provided by the City per Interlocal Agreement (\$2,000).
3. Fire Equipment Capital Reserve Fund #303 – Transfer of funds to cover Fire costs paid by the General Fund for the Interlocal Agreement with the Kent Fire Department Regional Fire Authority (\$900,000).
4. Surface Water Utility Fund #403 – Reimbursement of administrative costs and Maintenance Facility maintenance costs (\$115,823).
5. Equipment Rental Fund #501 – Reimbursement of administrative costs and Maintenance Facility maintenance costs (\$115,823).
6. Municipal Capital Improvements Fund #301 – Transfer of construction sales taxes to support General Fund operations (\$547,935).

Note: In the government-wide statements, the Equipment Rental Fund is shown in the governmental activities column.

Transportation CIP Fund #307

In 2014, two interfund transfers totaling \$12,455,000 were made into the Transportation CIP Fund as follows:

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1. General Fund #001 – Transferred community relief monies for the South 179th Street (34th to Military) sidewalk improvements (\$605,000).
2. Street Fund #102 – Transferred parking taxes (\$11,850,000) to assist with the payment of capital infrastructure projects in the City including the 28th/24th Connecting project and the Military Road South Improvement project from South 176th to South 166th Street.

Surface Water Utility Fund #403

One transfer was made into the Surface Water Utility Fund from the Des Moines Creek Basin Fund in the amount of \$2,520 as reimbursement for the City provided berm mowing costs at the Basin. Two transfers out of the Surface Water Utility Fund were made into the Des Moines Creek Basin Fund for maintenance and operations (\$67,187) and future capital replacement improvements at the Basin (\$79,905) for a total amount of \$147,092.

Non-Major Fund Transfers

Two non-major fund transfers in were made as follows: 1) The Port of Seattle ILA Fund transferred \$250,000 to the Light Rail Station Areas CIP Fund to purchase land for economic development purposes and 2) The Surface Water Utility Fund transferred \$147,092 to the Des Moines Creek Basin Fund for maintenance and operations of the basin and to accumulate reserves for future capital improvements.

NOTE 16: RECEIVABLE AND PAYABLE BALANCES

A. Receivables

The receivable balances for the major funds at December 31, 2014 were as follows:

Fund	Taxes	Customer Accounts (Net) ¹ & Contracts	Special Assessments/ Interest & Penalties	Due from Other Gov	Total
Governmental Activities:					
General #001 ²	\$2,543,384	\$1,433,574	\$1,273	\$493,487	\$4,471,718
Street #102	762,341	8,873	0	44,774	815,988
Hotel/Motel Tax #107	182,610	2,190	0	0	184,800
Special Assessment Debt #204	0	0	89,462	0	89,462
Transportation CIP #307	0	1,063,636	0	0	1,063,636
Other Non-Major Funds	221,815	138,914	0	10	360,739
Subtotal Governmental Activities	\$3,710,150	\$2,647,187	\$90,735	\$538,271	\$6,986,343
Reconciliation of balances in fund financial statements to government-wide financial statements:					
Internal service fund adjustment	0	0	0	0	0
Investment interest receivable	0	0	0	0	0
Total Governmental Activities	\$3,710,150	\$2,647,187	\$90,735	\$538,271	\$6,986,343
Amounts not scheduled for collection during the subsequent year for governmental activities	0	0	0	0	0
Business-type Activities:					
Surface Water Utility #403	\$0	\$103,728	\$5,210	\$0	\$108,938
Total Business-type Activities	\$0	\$103,728	\$5,210	\$0	\$108,938

¹ Allowance for uncollectible customer accounts has been included in the amounts above.

² Includes special revenue funds merged into the General Fund per GASB Statement No. 54.

B. Payables

The City's payable balances for the major funds at December 31, 2014 were as follows:

Fund	Accounts	Due to Other Gov	Deposits & Custodial	Interest & Other	Total
Governmental Activities:					
General #001 ¹	\$406,908	\$0	\$284,833	\$0	\$691,741
Street #102	115,740	0	0	0	115,740
Hotel/Motel Tax #107	92,940	0	0	0	92,940
Municipal Facilities CIP #306	44,569	0	0	0	44,569
Transportation CIP #307	1,174,960	0	0	0	1,174,960
Other Non-Major	32,753	0	0	0	32,753
Subtotal Governmental Activities	\$1,867,870	\$0	\$284,833	\$0	\$2,152,703
Reconciliation of balances in fund financial statements to government-wide financial statements:					
Internal service fund adjustment	38,493	0	0	0	38,493
Bond interest payable	0	0	0	3,933	3,933
Total Governmental Activities	\$1,906,363	\$0	\$284,833	\$3,933	\$2,195,129
Business-type Activities:					
Surface Water Utility #403	\$43,472	\$9,074	\$0	\$0	\$52,546
Total Business-type Activities	\$43,472	\$9,074	\$0	\$0	\$52,546

¹Includes special revenue funds merged into the General Fund per GASB Statement No. 54.

NOTE 17: JOINT VENTURES - SOUTH CORRECTIONAL ENTITY (SCORE)

The South Correctional Entity (SCORE) consolidated correctional facility was established February 25, 2009, when an Interlocal Agreement (the "Original Interlocal Agreement") was entered into by seven participating municipal governments, the "Member Cities" of Auburn, Burien, Des Moines, Federal Way, Renton, SeaTac and Tukwila, under the authority of the "Interlocal Cooperation Act" (RCW 39.34). This "Original Interlocal Agreement" was amended and restated October 1, 2009 and named the City of Des Moines as the "Host City" and the remaining Member Cities as "Owner Cities". This Interlocal Agreement is known as the "Formation Interlocal Agreement". Pursuant to a separate "Host City Agreement" dated October 1, 2009, the Host City will not enjoy the same equity position as the Owner Cities until all debts issued are paid and the Host City fulfills all of its obligations as outlined in the Host City Agreement. Pursuant to SCORE financial policies, all unexpected funds or reserve funds shall be distributed based on the percentage of the Member City's average daily population at the SCORE Facility for the last three (3) years regardless of their Owner City or Host City status.

SCORE, a governmental administrative agency pursuant to RCW 39.34.030(3), has the power to acquire, construct, own, operate, maintain, equip, and improve a correctional facility known as the "SCORE Facility" and to provide correctional services and functions incidental thereto, for the purpose of detaining arrestees and sentenced offenders in the furtherance of public safety and emergencies within the jurisdiction of the Member Cities. The SCORE Facility may serve the Member Cities and Subscribing Agencies which are in need of correctional facilities. Any agreement with a Subscribing Agency shall be in writing and approved by SCORE as provided within the SCORE Formation Interlocal Agreement.

Financing for the acquisition, construction, equipping, and improvement of the SCORE Facility was provided by bonds issued by the South Correctional Entity Facility Public Development Authority (the "SCORE PDA"), a public development authority chartered by the City of Renton pursuant to RCW 35.21.730 through 35.21.755 and secured by the full faith and credit of the Cities of Auburn, Burien Federal Way, Renton, SeaTac, and Tukwila. The SCORE PDA issued \$86 million

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in special obligation bonds in 2009 (the “Bonds”) to construct, develop, acquire and equip the SCORE Facility. Pursuant to the Formation Interlocal Agreement and the ordinances of each city, each Owner City (which includes the Cities of Auburn, Burien, Federal Way, Renton, SeaTac, and Tukwila) is obligated to budget for and pay its share, and only its share, of the principal of and the interest on the Bonds as the same become due and payable. Each Owner City’s obligation to pay its portion is an irrevocable, unconditional full faith and credit obligation of such Owner City, payable from property taxes levied within the constitutional and statutory authority provided without a vote of the electors of the Owner City on all of the taxable property within the Owner City and other sources of revenues available therefore. The following is a summary of the debt service requirements for the Bonds:

Summary of Debt Service Requirements										
Debt Service Schedule					Debt Service Allocation to Owner Cities					
Year	Principal	Interest	BABs Subsidy	Total	Auburn 31%	Burien 4%	Federal Way 18%	Renton 36%	SeaTac 3%	Tukwila 8%
2015	1,990,000	4,995,069	(1,514,410)	5,470,659	1,695,904	218,826	963,411	1,969,437	164,120	437,653
2016	2,065,000	4,911,886	(1,513,594)	5,463,292	1,693,621	218,532	961,938	1,966,785	163,899	437,063
2017	2,145,000	4,820,241	(1,503,576)	5,461,665	1,693,116	218,467	961,787	1,966,199	163,850	436,933
2018	2,240,000	4,715,979	(1,503,576)	5,452,403	1,690,245	218,096	960,120	1,962,865	163,572	436,192
2019	2,310,000	4,602,229	(1,467,237)	5,444,992	1,687,948	217,800	980,099	1,960,197	163,350	435,599
2020-2024	12,905,000	21,102,168	(7,183,090)	26,824,078	8,315,464	1,072,963	4,792,146	9,656,668	804,722	2,145,926
2025-2029	15,675,000	16,833,706	(6,067,796)	26,440,910	8,196,682	1,057,636	4,764,726	9,518,728	793,227	2,115,273
2030-2034	19,265,000	11,158,380	(4,128,483)	26,294,897	8,151,418	1,051,796	4,738,412	9,466,163	788,847	2,103,592
2035-2039	23,775,000	4,064,705	(1,697,914)	26,141,791	8,103,955	1,045,672	4,711,407	9,411,045	784,254	2,091,343
Totals	\$82,370,000	\$77,204,363	(26,579,676)	132,994,687	41,228,353	5,319,788	23,939,045	47,878,087	3,989,841	10,639,574

The City of SeaTac reports its share of equity interest in the Governmental Activities column within the Government-wide financial statements under non-current assets. The following is condensed (unaudited) financial information as of December 31, 2014 related to SCORE:

South Correctional Entity (SCORE) 2014 Member Cities Equity Allocation				
Member City	Percent of Equity	2013 Equity Balance	2014 Distribution	2014 Equity Balance
Auburn	29.00%	\$2,517,237	\$1,725,998	\$4,243,235
Burien	3.00%	294,323	221,087	515,410
Des Moines	2.00%	107,970	184,190	292,160
Federal Way	25.00%	1,820,940	1,855,785	3,676,725
Renton	29.00%	2,548,219	1,672,186	4,220,405
SeaTac	5.00%	331,708	380,958	712,666
Tukwila	7.00%	601,934	478,536	1,080,470
Grand Totals	100.00%	\$8,222,331	\$6,518,740	\$14,741,071

Completed financial statements for SCORE and SCORE PDA can be obtained at SCORE, Attn: Finance Manager, 20817 17th Avenue South, Des Moines, WA 98198.

NOTE 18: OTHER POSTEMPLOYMENT BENEFIT (OPEB) PLANS

A. LEOFF 1 Retirees

In 2007, the City of SeaTac implemented GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits other than Pensions. The following describes the details of the Plan for

these benefits:

Plan description: In accordance with the Revised Code of Washington (RCW) Chapter 41.26, the City of SeaTac provides lifetime postemployment healthcare benefits to all LEOFF 1 (Law Enforcement Officers and Fire Fighters hired prior to September 1, 1977) retirees. Currently, four retirees meet those eligibility requirements.

Funding policy: The City contributes 100% of the cost of medical insurance premiums for all LEOFF 1 retirees (excludes spouses). In addition, the City reimburses LEOFF 1 retirees for all validated claims for medical, dental (\$1,000 annual limit) and hospitalization costs incurred by the retirees. Only those medical services and expenditures which are deemed reasonable and necessary by the LEOFF Board will be paid by the City. State statute provides that the City's responsibility for medical payments of LEOFF 1 retirees is secondary to any other coverage retirees receive or are eligible to receive. LEOFF Board policies and procedures stipulate that medical services payable under this benefit Plan be reduced by any amount received or eligible to be received under worker's compensation, Medicare, insurance provided by another employer, other pension plan, or other similar sources. In the event any such alternative source of payment is available, it shall be incumbent upon the requesting member to apprise the Board of such source, if known to the member, and failure to do so may result in the loss of medical benefits.

A dedicated trust fund has not been established for LEOFF 1 retiree benefits; therefore, the City's current funding policy is based upon pay-as-you-go financing requirements. During the year, the City contributed \$60,118 to the Plan for postemployment health care.

Annual OPEB cost and net OPEB obligation: The City's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC). The City has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement No. 45 for employers in plans with fewer than one hundred total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period of fifteen years. The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the Plan, and changes in the City's net OPEB obligation:

Annual required contribution (ARC)	\$167,616
Interest on net OPEB obligation	15,660
Adjustment to annual required contribution	<u>(35,211)</u>
Annual OPEB cost (expense)	148,065
Contributions made	<u>(60,118)</u>
Increase in net OPEB obligation	87,947
Net OPEB Obligation – Beginning of Year	<u>391,489</u>
Net OPEB Obligation – End of Year	<u>\$479,436</u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for fiscal year 2014 and the two preceding fiscal years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Contribution as a Percentage of Annual OPEB Cost	OPEB Obligation
2012 (Corrected)	\$104,368	57%	\$321,877
2013	\$141,527	51%	\$391,489
2014	\$148,065	41%	\$479,436

Funded status and funding progress: As of June 30, 2011, the most recent actuarial valuation date (valuation report is issued by the Office of the State Actuary (OSA), the actuarial accrued liability (AAL) for benefits was

\$1,863,614 all of which was unfunded. There is no covered payroll (annual payroll of active employees covered by the Plan) calculation because there are no active employees covered by the Plan.

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about mortality and the healthcare cost trend. Amounts determined regarding the funded status of the Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial methods and assumptions: The actuarial cost method used to determine the actuarial accrued liability (AAL) was the projected unit credit method. The actuarial accrued liability and the net OPEB obligation are amortized on an open basis as a level dollar over 15 years. The methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and actuarial value of assets, consistent with the long-term perspective of the calculations. These assumptions are individually and collectively reasonable for purposes of this valuation.

The following simplifying assumptions were made:

Retirement age for active employees: The City has no active LEOFF 1 employees. Therefore, this did not affect the actuarial accrued liability calculation.

Mortality: Mortality rates were assumed to follow the LEOFF 1 mortality rates used in the June 30, 2011 actuarial valuation report issued by the Office of the State Actuary (OSA) for Washington State.

Healthcare cost trend rate and inflation rate: The medical inflation trend is the percent that medical costs are expected to increase in future years. The expected medical inflation trend varies by medical plan and Medicare coverage, starting at approximately 7.0% in 2012 (includes the impact of the Patient Protection and Affordable Care Act (PPACA) excise tax starting in 2018) and decreasing to 5.8% in 2015. The expected long-term health care inflation assumption of 4.75% was used based on health care actuaries contracted at Milliman. Healthcare costs and trends were also determined by Milliman and used by OSA in the State-wide LEOFF 1 medical study performed in 2013. The results were based on grouped data with four active groupings and four inactive groupings.

Healthcare costs: Milliman health care actuaries determined medical claim costs.

Demographic assumptions: It is assumed that participation will be at 100% and Medicare coverage will also be at 100%.

Interest discount rate: An expected long-term yield of 4.0% (Annual rate, compounded annually) was chosen because liabilities will be funded on a pay-as-you-go basis and LEOFF 1 accounts are invested in short term investment products.

Inflation rate: The expected long-term inflation assumption of 3.0% was based on the CPI for Urban Wage Earners and Clerical Workers, Seattle-Tacoma-Bremerton, WA – All items.

Long-term care assumptions: Milliman health care actuaries developed long-term care assumptions for two types of long-term care including institutional and non-institutional. Four assumptions were developed dealing with long-term care including: annual cost, incidence rate, length of stay and inflation rate. Various tables involving these assumptions were established based on age.

B. Association of Washington Cities Employer Benefit Trust (“Trust”)

The City of SeaTac is a member of the Association of Washington Cities Employee Benefit Trust Health Care Program (AWC Trust HCP). Chapter 48.62 RCW provides that two or more local government entities may, by Interlocal Agreement under Chapter 39.34 RCW, form together or join a pool or organization for the joint purchasing of insurance, and/or joint self-insurance, to the same extent that they may individually purchase insurance, or self-insure.

An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The ACW Trust HCP was formed on January 1, 2014 when participating cities, towns and non-city entities of the AWC Employee Benefit Trust in the State of Washington joined together by signing an Interlocal Governmental Agreement to jointly self-insure certain health benefit plans and programs for participating employees, their covered dependents and other beneficiaries through a designated account within the Trust.

As of December 31, 2014, 263 cities/towns/non-city entities participate in the AWC Trust HCP.

The AWC Trust HCP allows members to establish a program of joint insurance and provides health and welfare services to all participating members. The AWC Trust HCP pools claims without regard to individual member experience. The pool is actuarially rated each year with the assumption of projected claims run-out for all current members. The AWC Trust HCP includes medical insurance through Regence BlueShield and Asuris Northwest Health, dental insurance through Delta Dental of Washington, and vision insurance through Vision Insurance Plan. Eligible members are cities and towns within the State of Washington, non-city entities (public agency, public corporation, intergovernmental agency, or political subdivision within the State of Washington) are eligible to apply for coverage into the AWC Trust HCP, submitting application to the Board of Trustees for review as required in the Trust Agreement.

Participating employers pay monthly premiums to the AWC Trust HCP. The AWC Trust HCP is responsible for payment of all covered claims. The AWC Trust HCP purchases stop loss insurance for Regence/Asuris plans at an Individual Stop Loss (ISL) of \$1.5 million through Life Map, and Group Health ISL at \$750,000 through Sun Life. The aggregate policy is 200% of expected medical claims.

Participating employers contract to remain in the AWC HCP for a minimum of three years. Participating employers with over 250 employees must provide written notice of termination of all coverage a minimum of 12 months in advance of the termination date, and participating employers with fewer than 250 employees must provide written notice of termination of all coverage a minimum of 6 months in advance of termination date. When all coverage is being terminated, termination will only occur on December 31. Participating employers terminating a group or line of coverage must notify the HCP a minimum of 60 days prior to termination. A participating employer's termination will not obligate the member to past debts, or further contributions to the HCP. Similarly, the terminating member forfeits all rights and interest to the HCP Account.

The operations of the Health Care Program are managed by the Board of Trustees or its delegates. The Board of Trustees is comprised of four regionally elected officials from Trust member cities or towns, the Employee Benefit Advisory Committee Chair and Vice Chair, and the AWC Board of Directors President and Vice President. The Trustees or its appointed delegates review and analyze Health Care Program related matters and make operational decisions regarding premium contributions, reserves, plan options and benefits in compliance with Chapter 48.62 RCW. The Board of Trustees has decision authority consistent with the Trust Agreement, Health Care Program policies, Chapter 48.62 RCW and Chapter 200-110-WAC.

The accounting records of the Trust HCP are maintained in accordance with methods prescribed by the State Auditor's Office under the authority of Chapter 43.09 RCW. The Trust HCP also follows applicable accounting

standards established by the Governmental Accounting Standards Board (GASB). Year-end financial reporting is done on an accrual basis and submitted to the Office of the State Auditor as required by Chapter 200-110 WAC. The audit report for the AWC Trust HCP is available from the Washington State Auditor's Office.

NOTE 19: TRANSFER OF OPERATIONS

The City implemented new GASB Statement No. 69, Government Combinations and Disposals of Government Operations, for fire services in 2014. Background information, along with the details of this transfer, is being provided below.

In September 2013, the City of SeaTac entered into an Interlocal Agreement with the Kent Fire Department Regional Fire Authority (Kent RFA), for the purpose of consolidating fire protection, fire suppression and emergency medical services effective January 1, 2014.

Since the late 1990's, the City of SeaTac had evaluated various consolidation proposals and participated in various studies to determine what type of fire service consolidation would best serve the citizens of SeaTac. In 2010, potential fire consolidation was discussed by the City Council at their retreat. This discussion led to an Interlocal Agreement with the Kent RFA for specific services including Chief Administrative Services, Emergency Management Services, Fire Prevention Services, Fire Investigation Services, and Training Services. In 2013, the Kent RFA advised the City that it was unable to continue providing services under the existing Interlocal Agreement beyond December 31, 2013. While under the service contract with the Kent RFA, an exploratory process, which utilized a stakeholder task force, examined the concept of consolidation. It was determined that a merger between the two agencies would not be fiscally feasible, so a new Interlocal Agreement transferring/consolidating services was entered into. The new Interlocal Agreement included the additional services of Fire Marshall, Fire Investigation, Emergency Management Services, and Public Education. Areas of cost savings in the Interlocal Agreement include an early retirement program for firefighters, absorption of new firefighter training costs, less overtime due to a larger organization, and indirect cost reductions in areas like insurance liability, civil service, and contract negotiations.

The terms of the Interlocal Agreement with the Kent RFA included the sale of fire personal property to the Kent RFA in the amount of \$1,422,313. In addition, under the terms of the contract, the City paid the Kent RFA \$1,162,124 for the full value of the accrued leave balances (excluding compensatory time) for 48 former Fire Fighters and administrative staff. On the government-wide Statement of Activities, sale of the capital asset personal property resulted in a capital asset sale loss in the amount of \$184,847 and proceeds from non-capital personal property in the amount of \$280,693. These items have been reported as special items on the governmental Statement of Revenues, Expenditures and Changes in Fund Balance and the government-wide Statement of Activities. Since the consolidation took place on January 1, 2014, no partial year expenditures were incurred by the City for related fire services and there was no impact on 2014 revenues.

NOTE 20: OTHER DISCLOSURES

A. Accounting and Reporting Changes

In 2014, the City implemented new GASB Statement No. 69, Government Combinations and Disposals of Government Operations. Additional information on this change can be found in Note 19 Transfer of Operations.

B. Special Items

As reported in Note 19 Transfer of Operations, the City of SeaTac entered into an Interlocal Agreement with the Kent Fire Department Regional Fire Authority (Kent RFA) for fire services effective January 1, 2014.

As shown on the government-wide Statement of Activities and as per GASB Statement No. 69, Government Combinations and Disposals of Government Operations, the City reported a loss on the sale of personal fire capital assets in the amount of \$184,847, a sale of non-capital personal property for \$280,693 and a payment to the Kent RFA of \$1,162,124 for firefighter accrued leave balances. Additionally, the City reported this transfer of operations as a special item on the Statement of Revenues, Expenditures and Changes in Fund Balance in the governmental fund financial statements which included a special item for \$1,422,313 as proceeds from the sale of fire personal property/assets and a payment for firefighter accrued leave balances in the amount of \$1,162,124. This transfer of operations was reported as a special item due to the significance and infrequency of this type of transaction occurring.

C. **Subsequent Events**

In October 2014, the City Council passed Ordinance #14-1015 establishing a tax on the gross revenues of certain utilities operating within the City to provide revenues for City services and capital requirements. This tax was levied at 6% (except for solid waste which is at 5%) on electric, natural or manufactured gas, solid waste, surface water management, telephone and cable businesses. This ordinance was effective January 1, 2015.



**Required Supplementary Information
Schedule of Funding Progress
for LEOFF 1 Retiree Medical Benefits**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Projected Unit Credit (PUC) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a)/c)
6/30/2007	\$0	\$1,325,508	\$1,325,508	0.0%	\$0	0.0%
6/30/2009	\$0	\$1,263,859	\$1,263,859	0.0%	\$0	0.0%
6/30/2011	\$0	\$1,863,614	\$1,863,614	0.0%	\$0	0.0%

Notes to the Schedule of Funding Progress:

The City is using the alternative measurement method as permitted under GASB Statement No. 45. The City utilizes actuarial valuation tools provided by the Office of the State Actuary (OSA) for Washington State. Retirement, disablement, termination, and mortality rates were assumed to follow LEOFF 1 rates used in the June 30, 2011 actuarial report issued by OSA.

The 6/30/09 actuarial information was corrected in 2013.

**Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
For the Year Ended December 31, 2014**

	2013-2014 Biennial Budget Amounts		Actual Amounts	Variance with Final Budget- (Negative)
	Original	Final		
Revenues				
Taxes	\$ 51,517,393	\$ 51,692,393	\$ 50,076,068	\$ (1,616,325)
Licenses & permits	2,473,980	2,473,980	2,521,111	47,131
Intergovernmental & contributions	1,388,930	1,388,930	1,906,020	517,090
Charges for services	2,440,305	2,518,805	2,645,142	126,337
Fines and forfeitures	958,200	958,200	1,176,644	218,444
Investment & other earnings	57,000	57,000	81,706	24,706
Rent & leases	416,150	416,150	434,781	18,631
Miscellaneous	40,450	40,450	340,090	299,640
Total Revenues	59,292,408	59,545,908	59,181,562	(364,346)
Expenditures				
Current:				
Judicial	1,589,540	1,589,540	1,389,570	199,970
General Government	12,741,870	12,738,304	12,128,529	609,775
Public Safety	36,666,857	38,009,476	38,111,511	(102,035)
Transportation	1,641,845	1,641,845	1,690,821	(48,976)
Health & Human Services	1,315,544	1,485,544	1,445,425	40,119
Physical & Economic Environment	3,519,753	3,514,453	3,556,573	(42,120)
Culture & Recreation	6,461,531	6,461,531	6,574,230	(112,699)
Debt Service:				
Interest	-	-	82,336	(82,336)
Capital outlay	-	10,000	10,402	(402)
Total Expenditures	63,936,940	65,450,693	64,989,397	461,296
Excess (deficiency) of revenues over (under) expenditures	(4,644,532)	(5,904,785)	(5,807,835)	96,950
Other Financing Sources (Uses)				
Transfers in	3,861,825	4,761,825	3,469,759	(1,292,066)
Disposal & ins-capital assets	-	-	1,231,688	1,231,688
Total Other Fin Sources (Uses)	3,861,825	4,761,825	4,701,447	(60,378)
Net Change in Fund Balances	(782,707)	(1,142,960)	(1,106,388)	36,572
Fund Balances-January 1, 2013	9,112,074	9,762,227	9,762,227	-
Fund Balances-December 31, 2014	<u>\$ 8,329,367</u>	<u>\$ 8,619,267</u>	<u>\$ 8,655,839</u>	<u>\$ 36,572</u>

*Note: Budgetary basis differs from GAAP basis. See reconciliation pages following this schedule.



City of SeaTac, WA – General Fund Reconciliation

**Reconciliation of General Fund Budgetary Basis Actual Amounts to
GAAP Basis Actual Amounts in the General Fund Statement of Revenues,
Expenditures and Changes in Fund Balance
For the Year Ended December 31, 2014**

	General Fund Budgetary Basis - Actual Amounts	Special Revenue Funds merged with General Fund as required by GASB Statement No. 54		
		Contingency Reserve Fund	Port of Seattle ILA	Transit Planning
Revenues				
Taxes	\$ 50,076,068	\$ -	\$ -	\$ -
Licenses & permits	2,521,111	-	-	-
Intergovernmental	1,906,020	-	-	411,811
Charges for services	2,645,142	-	-	-
Fines & forfeitures	1,176,644	-	-	-
Investment & other earnings	81,706	590	1,495	121
Rent & leases	434,781	-	-	-
Miscellaneous	340,090	-	-	-
Total Revenues	59,181,562	590	1,495	411,932
Expenditures				
Current:				
Judicial	1,389,570	-	-	-
General Government	12,128,529	-	-	430,978
Public Safety	38,111,511	-	-	-
Transportation	1,690,821	-	-	-
Health & Human Services	1,445,425	-	-	-
Physical & Economic Env	3,556,573	-	-	-
Culture & Recreation	6,574,230	-	19,714	-
Debt service:				
Interest	82,336	-	-	-
Capital outlay	10,402	-	-	-
Total Expenditures	64,989,397	-	19,714	430,978
Excess (deficiency) of revenues over (under) expenditures	(5,807,835)	590	(18,219)	(19,046)
Other Financing Sources (Uses)				
Transfers in	3,469,759	-	-	-
Transfers out	-	-	(855,000)	-
Disposal & ins-capital assets	1,231,688	-	-	-
Total Other Fin Sources (Uses)	4,701,447	-	(855,000)	-
Special Items				
Proceeds from sale of fire assets	-	-	-	-
Payment for fire accrued leave bal	-	-	-	-
Total Special Items	-	-	-	-
Net Change in Fund Balances	(1,106,388)	590	(873,219)	(19,046)
Fund Balances-Beginning*	9,374,602	775,819	2,437,363	282,898
Fund Balances-Ending	<u>\$ 8,268,214</u>	<u>\$ 776,409</u>	<u>\$ 1,564,144</u>	<u>\$ 263,852</u>

*Note: Beginning fund balance amounts have been adjusted for interfund transfers between these funds.

General Fund Reconciliation - City of SeaTac, WA

	Special Revenue Funds merged with General Fund as req by GASB Statement No. 54		Eliminate Transfers & Spec Item Adj	Eliminate 2013 Actuals	General Fund GAAP Basis - Actual Amounts	Net Change - Increase (Decrease)
	Building Management	Facility Repair & Replacement				
Revenues						
Taxes	\$ -	\$ -	\$ -	\$(24,252,838)	\$ 25,823,230	\$(24,252,838)
Licenses & permits	-	-	-	(1,083,719)	1,437,392	(1,083,719)
Intergovernmental	-	-	-	(986,594)	1,331,237	(574,783)
Charges for services	-	-	-	(1,252,811)	1,392,331	(1,252,811)
Fines & forfeitures	3,960	-	-	(589,780)	590,824	(585,820)
Investment & other earnings	1,324	176	-	(39,087)	46,325	(35,381)
Rent & leases	1,255,270	-	-	(222,049)	1,468,002	1,033,221
Miscellaneous	153,091	-	(280,693)	(25,476)	187,012	(153,078)
Total Revenues	1,413,645	176	(280,693)	(28,452,354)	32,276,353	(26,905,209)
Expenditures						
Current:						
Judicial	-	-	-	(705,342)	684,228	(705,342)
General Government	4,259	-	-	(6,028,189)	6,535,577	(5,592,952)
Public Safety	-	-	(1,162,124)	(17,959,058)	18,990,329	(19,121,182)
Transportation	-	-	-	(878,102)	812,719	(878,102)
Health & Human Services	-	-	-	(712,376)	733,049	(712,376)
Physical & Economic Env	527,937	-	-	(1,730,547)	2,353,963	(1,202,610)
Culture & Recreation	-	44,547	-	(3,207,020)	3,431,471	(3,142,759)
Debt service:						
Interest	-	-	-	(77,336)	5,000	(77,336)
Capital outlay	32,919	-	-	-	43,321	32,919
Total Expenditures	565,115	44,547	(1,162,124)	(31,297,970)	33,589,657	(31,399,740)
Excess (deficiency) of revenues over (under) expenditures	848,530	(44,371)	881,431	2,845,616	(1,313,304)	4,494,531
Other Financing Sources (Uses)						
Transfers in	-	120,000	(507,625)	(1,005,503)	2,076,631	(1,393,128)
Transfers out	(507,625)	-	507,625	-	(855,000)	(855,000)
Disposal & ins-capital assets	968	-	(1,141,620)	(16,165)	74,871	(1,156,817)
Total Other Fin Sources (Uses)	(506,657)	120,000	(1,141,620)	(1,021,668)	1,296,502	(3,404,945)
Special Items						
Proceeds-sale of fire assets	-	-	1,422,313	-	1,422,313	1,422,313
Payment-fire accr leave bal	-	-	(1,162,124)	-	(1,162,124)	(1,162,124)
Total Special Items	-	-	260,189	-	260,189	260,189
Net Change in Fund Balances	341,873	75,629	-	1,823,948	243,387	1,349,775
Fund Balances-Beginning	2,064,764	71,388	-	(1,823,948)	13,182,886	3,808,284
Fund Balances-Ending	<u>\$ 2,406,637</u>	<u>\$ 147,017</u>	<u>\$ -</u>	<u>N/A</u>	<u>\$ 13,426,273</u>	<u>\$ 5,158,059</u>

**Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
For the Year Ended December 31, 2014**

	2013-2014 Biennial Budget Amounts			Variance with Final Budget- (Negative)
	Original	Final	Amounts*	
Revenues				
Taxes	\$ 10,751,738	\$ 10,751,738	\$ 12,887,201	\$ 2,135,463
Intergovernmental	2,114,536	2,114,536	1,769,587	(344,949)
Charges for services	-	-	21,444	21,444
Investment & other earnings	-	-	19,865	19,865
Rents & leases	13,800	13,800	13,800	-
Miscellaneous	31,400	31,400	40,771	9,371
Total Revenues	12,911,474	12,911,474	14,752,668	1,841,194
Expenditures				
Current:				
Transportation	4,859,072	6,059,072	3,898,420	2,160,652
Physical & Economic Environment	154,500	154,500	136,415	18,085
Capital Outlay:				
Transportation	1,613,500	1,613,500	809,329	804,171
Total Expenditures	6,627,072	7,827,072	4,844,164	2,982,908
Excess (deficiency) of revenues over (under) expenditures	6,284,402	5,084,402	9,908,504	4,824,102
Other Financing Sources (Uses)				
Transfers out	(8,790,100)	(12,790,100)	(12,790,100)	-
Disposal & ins-capital assets	-	-	43,778	43,778
Total Other Fin Sources (Uses)	(8,790,100)	(12,790,100)	(12,746,322)	43,778
Net Change in Fund Balances	(2,505,698)	(7,705,698)	(2,837,818)	4,867,880
Fund Balances-January 1, 2013	10,034,736	11,505,528	11,505,528	-
Fund Balances-December 31, 2014	\$ 7,529,038	\$ 3,799,830	\$ 8,667,710	\$ 4,867,880

*Note: Budgetary basis is the same as GAAP basis.

**Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
For the Year Ended December 31, 2014**

	2013-2014 Biennial Budget Amounts		Amounts*	Variance with
	Original	Final		Final Budget- Positive (Negative)
Revenues				
Taxes	\$ 1,694,370	\$ 1,694,370	\$ 2,046,188	\$ 351,818
Intergovernmental	-	-	26,024	26,024
Investment & other earnings	14,000	14,000	12,507	(1,493)
Miscellaneous	-	-	500	500
Total Revenues	1,708,370	1,708,370	2,085,219	376,849
Expenditures				
Current:				
Economic Environment	2,592,217	2,626,717	2,452,901	173,816
Total Expenditures	2,592,217	2,626,717	2,452,901	173,816
Excess (deficiency) of revenues over (under) expenditures	(883,847)	(918,347)	(367,682)	550,665
Other Financing Sources (Uses)	-	-	-	-
Total Other Fin Sources (Uses)	-	-	-	-
Net Change in Fund Balances	(883,847)	(918,347)	(367,682)	550,665
Fund Balances-January 1, 2013	7,380,704	7,501,735	7,501,735	-
Fund Balances-December 31, 2014	<u>\$ 6,496,857</u>	<u>\$ 6,583,388</u>	<u>\$ 7,134,053</u>	<u>\$ 550,665</u>

*Note: Budgetary basis is the same as GAAP basis.



City of SeaTac, WA – Nonmajor Governmental Funds

The City currently has six major governmental funds (General, Street, Hotel/Motel Tax, Special Assessment Debt, Municipal Facilities CIP, and Transportation CIP). These funds are reported separately in the financial statements for the governmental funds.

The City has seven funds that are considered to be nonmajor governmental funds (Des Moines Creek Basin ILA, LID Guarantee, 2009 SCORE Bond, 2009 LTGO Refunding Bond, Municipal Capital Improvement, Fire Equipment Capital Reserve, and Light Rail Station Areas CIP) under GASB Statement 34. These funds fall within three fund types including special revenue funds, debt service funds and capital project funds. These funds are combined and are included in the “Other Governmental Funds” column of the governmental funds financial statements. Additionally, the City has five special revenue funds that were merged into the General Fund (Contingency Reserve, Port of Seattle ILA, Transit Planning, Building Management and Facilities Repair & Replacement) in the financial statements as required under GASB Statement 54.

The following descriptions provide an overview of the purpose of the nonmajor governmental funds:

Special Revenue Funds

Special revenue funds are used to account for specific revenues that are legally restricted to expenditures for particular purposes. The following funds are the City’s special revenue funds that fall under the nonmajor governmental funds category:

1. The Des Moines Creek Basin ILA Fund was established in 2009 to account for the revenues and expenditures related to the Des Moines Creek Basin. The City serves as Treasurer for the Des Moines Creek Basin Committee.

Debt Service Funds

Debt service funds account for the payment of principal and interest on general government debt. The City has three nonmajor debt service funds as follows:

1. The Local Improvement District Guarantee Bond Fund provides financial security for outstanding LID bonds and special assessment debt. This Fund will be closed in 2015.
2. The 2009 SCORE Bond Fund was established to service the debt on the South Correctional Entity Facility Development Authority Public Development Bonds, Series 2009B (Taxable Build America Bonds) and Series 2009A.
3. The 2009 Limited Tax General Obligation Bond Refunding Fund was established to service the debt on the *LTGO City Hall Bonds* and the *Hotel/Motel Tax Bonds* that were refunded in 2009.

Capital Project Funds

Capital project funds are used to account for the acquisition and construction of major capital facilities other than those financed by proprietary funds and trust funds. The City has three nonmajor capital project funds as follows:

1. The Municipal Capital Improvements Fund accounts for capital expenditures for non-transportation capital improvements, including park improvements, facility improvements, and computer equipment/hardware.
2. The Fire Equipment Capital Reserve Fund accounts for the replacement of major Fire Department capital equipment including pumper trucks, vehicles and equipment. This Fund will be closed in 2015.
3. The Light Rail Station Areas CIP Fund is used to account for infrastructure improvements in the City’s two light rail station areas.

**Combining Balance Sheet
December 31, 2014**

	Special Revenue		Debt Service			
	Des Moines Creek Basin ILA	Total Special Rev Funds	LID Guarantee	2009 LTGO Bond Refunding	SCORE Bond	Total Debt Service Funds
Assets						
Cash & cash equivalents	\$ 2,081,662	\$ 2,081,662	\$ 12,500	\$ 13,148	\$ 641	\$ 26,289
Receivables (net of allowance for uncollectibles):						
Taxes	-	-	-	-	-	-
Customer accounts & contracts	-	-	-	-	-	-
Due from other governments	-	-	-	-	-	-
Prepaid items	-	-	-	-	112,862	112,862
Total Assets	<u>\$ 2,081,662</u>	<u>\$ 2,081,662</u>	<u>\$ 12,500</u>	<u>\$ 13,148</u>	<u>\$ 113,503</u>	<u>\$ 139,151</u>
Liabilities						
Accounts & other payable	16,165	16,165	-	-	-	-
Total Liabilities	16,165	16,165	-	-	-	-
Deferred Inflows of Resources						
Unavailable revenue-grants/interloc	-	-	-	-	-	-
Unavailable revenue-leases	-	-	-	-	-	-
Total Def Inflows of Resources	-	-	-	-	-	-
Fund Balances (Deficits)						
Nonspendable:						
Prepayments	-	-	-	-	112,862	112,862
Restricted:						
Des Moines Creek Basin ILA	2,065,497	2,065,497	-	-	-	-
Open space & trails	-	-	-	-	-	-
Capital projects & equipment	-	-	-	-	-	-
Debt service	-	-	12,500	13,148	641	26,289
Assigned:						
Fire equipment replacement	-	-	-	-	-	-
Light Rail Station projects	-	-	-	-	-	-
Capital projects & equipment	-	-	-	-	-	-
2015-2016 excess budget approp	-	-	-	-	-	-
Total Fund Balances	<u>2,065,497</u>	<u>2,065,497</u>	<u>12,500</u>	<u>13,148</u>	<u>113,503</u>	<u>139,151</u>
Total Liab, Def Inflows of Res & Fund Balances (Deficits)	<u>\$ 2,081,662</u>	<u>\$ 2,081,662</u>	<u>\$ 12,500</u>	<u>\$ 13,148</u>	<u>\$ 113,503</u>	<u>\$ 139,151</u>

	Capital Improvement				Total Nonmajor Governmental Funds
	Municipal Capital Improvement	Fire Equipment Capital Reserve	Light Rail Station Areas CIP	Total Capital Project Funds	
Assets					
Cash & cash equivalents	\$ 1,611,084	\$ 44,540	\$ 1,826,380	\$ 3,482,004	\$ 5,589,955
Receivables (net of allowance for uncollectibles):					
Taxes	221,815	-	-	221,815	221,815
Customer accounts & contracts	91,279	-	47,635	138,914	138,914
Due from other governments	10	-	-	10	10
Prepaid items	-	-	-	-	112,862
Total Assets	\$ 1,924,188	\$ 44,540	\$ 1,874,015	\$ 3,842,743	\$ 6,063,556
Liabilities					
Accounts & other payable	13,870	-	2,718	16,588	32,753
Total Liabilities	13,870	-	2,718	16,588	32,753
Deferred Inflows of Resources					
Unavailable revenue-grants/interlocal	2,271	-	47,635	49,906	49,906
Unavailable revenue-leases	7,414	-	-	7,414	7,414
Total Def Inflows of Resources	9,685	-	47,635	57,320	57,320
Fund Balances (Deficits)					
Nonspendable:					
Prepayments	-	-	-	-	112,862
Restricted:					
Des Moines Creek Basin ILA	-	-	-	-	2,065,497
Open space & trails	375,961	-	-	375,961	375,961
Capital projects & equipment	1,293,596	-	800,000	2,093,596	2,093,596
Debt service	-	-	-	-	26,289
Assigned:					
Fire equipment replacement	-	44,540	-	44,540	44,540
Light Rail Station projects	-	-	75,162	75,162	75,162
Capital projects & equipment	231,076	-	-	231,076	231,076
2015-2016 excess budget approp	-	-	948,500	948,500	948,500
Total Fund Balances	1,900,633	44,540	1,823,662	3,768,835	5,973,483
Total Liab, Def Inflows of Res & Fund Balances (Deficits)	\$ 1,924,188	\$ 44,540	\$ 1,874,015	\$ 3,842,743	\$ 6,063,556

**Combining Statement of Revenues, Expenditures & Changes in Fund Balance
For the Year Ended December 31, 2014**

	Special Revenue		Debt Service			
	Des Moines Creek Basin ILA	Total Special Revenue Funds	LID Guarantee	2009 SCORE Bond	2009 LTGO Bond Refunding	Total Debt Service Funds
Revenues						
Taxes	\$ -	\$ -	\$ -	\$ 161,750	\$ 348,400	\$ 510,150
Intergovernmental & contribution	211,669	211,669	-	24,672	-	24,672
Charges for services	-	-	-	-	-	-
Fines & forfeitures	-	-	-	-	-	-
Investment earnings	1,515	1,515	-	24	120	144
Miscellaneous	-	-	-	-	-	-
Total Revenues	213,184	213,184	-	186,446	348,520	534,966
Expenditures						
Current:						
Judicial	-	-	-	-	-	-
General Government	-	-	-	-	-	-
Public Safety	-	-	-	-	-	-
Physical Environment	101,247	101,247	-	-	-	-
Culture & Recreation	-	-	-	-	-	-
Debt Service:						
Principal	-	-	-	58,500	295,000	353,500
Interest	-	-	-	124,816	53,100	177,916
Capital Outlay:						
General Government	-	-	-	-	-	-
Economic Environment	-	-	-	-	-	-
Culture & Recreation	-	-	-	-	-	-
Total Expenditures	101,247	101,247	-	183,316	348,100	531,416
Excess (deficiency) of revenues over (under) expenditures	111,937	111,937	-	3,130	420	3,550
Other Financing Sources (Uses)						
Transfers in	147,092	147,092	-	-	-	-
Transfers out	(4,520)	(4,520)	-	-	-	-
Total Other Fin Sources (Uses)	142,572	142,572	-	-	-	-
Net Change in Fund Balances	254,509	254,509	-	3,130	420	3,550
Fund Balances-January 1st	1,810,988	1,810,988	12,500	110,373	12,728	135,601
Fund Balances-December 31st	\$ 2,065,497	\$ 2,065,497	\$ 12,500	\$ 113,503	\$ 13,148	\$ 139,151

	Capital Project				Total Nonmajor Governmental Funds
	Municipal Capital Imp	Fire Equip Capital Res	Light Rail Station Areas CIP	Total Capital Project Funds	
Revenues					
Taxes	\$ 1,390,817	\$ -	\$ -	\$ 1,390,817	\$ 1,900,967
Intergovernmental & contributions	235,729	-	83,521	319,250	555,591
Charges for services	233,362	-	-	233,362	233,362
Fines & forfeitures	16	-	-	16	16
Investment earnings	1,106	695	1,323	3,124	4,783
Miscellaneous	198	-	-	198	198
Total Revenues	1,861,228	695	84,844	1,946,767	2,694,917
Expenditures					
Current:					
Judicial	69,953	-	-	69,953	69,953
General Government	47,139	-	-	47,139	47,139
Public Safety	-	1,060,000	-	1,060,000	1,060,000
Physical Environment	-	-	-	-	101,247
Culture & Recreation	15,972	-	-	15,972	15,972
Debt Service:					
Principal	-	-	-	-	353,500
Interest	-	-	-	-	177,916
Capital Outlay:					
General Government	239,990	-	-	239,990	239,990
Economic Environment	-	-	140,485	140,485	140,485
Culture & Recreation	218,275	-	-	218,275	218,275
Total Expenditures	591,329	1,060,000	140,485	1,791,814	2,424,477
Excess (deficiency) of revenues over (under) expenditures	1,269,899	(1,059,305)	(55,641)	154,953	270,440
Other Financing Sources (Uses)					
Transfers in	-	-	250,000	250,000	397,092
Transfers out	(547,935)	(900,000)	-	(1,447,935)	(1,452,455)
Total Other Fin Sources (Uses)	(547,935)	(900,000)	250,000	(1,197,935)	(1,055,363)
Net Change in Fund Balances	721,964	(1,959,305)	194,359	(1,042,982)	(784,923)
Fund Balances-Beginning	1,178,669	2,003,845	1,629,303	4,811,817	6,758,406
Fund Balances-Ending	\$ 1,900,633	\$ 44,540	\$ 1,823,662	\$ 3,768,835	\$ 5,973,483