



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

City of SeaTac

King County

For the period January 1, 2016 through December 31, 2016

Published March 26, 2018

Report No. 1020973





Office of the Washington State Auditor

Pat McCarthy

March 26, 2018

City Council
City of SeaTac
SeaTac, Washington

Report on Financial Statements

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

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

Sincerely,

A handwritten signature in black ink that reads "Pat McCarthy".

Pat McCarthy
State Auditor
Olympia, WA

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SCHEDULE OF AUDIT FINDINGS AND RESPONSES

**City of SeaTac
King County
January 1, 2016 through December 31, 2016**

2016-001 The City's internal controls were not adequate to ensure all major funds were accurately reported on the financial statements, federal awards were accurately identified and managerial fund transfers were properly eliminated.

Background

City management, state and federal agencies, and the public rely on the information included in financial statements and reports to make decisions. City management is responsible for designing, implementing and maintaining internal controls that provide reasonable assurance regarding the reliability of financial reporting.

Government Auditing Standards requires auditors to communicate material weaknesses as a finding.

Description of Condition

We identified the following deficiencies in internal controls over financial reporting. These deficiencies represent a material weakness over financial reporting:

- The City did not have adequate controls in place to ensure the results of the major fund calculation were incorporated into the financial statements.
- Interdepartmental communication and financial statement review were not adequate to correctly report federal expenditures.
- Financial statement review was not adequate to detect an error made during the managerial fund roll-up process.

Cause of Condition

Finance department turnover significantly limited the available resources of key financial statement preparation positions. Adequate resources were not dedicated to internal controls over financial statement preparation and review, resulting in controls that were not sufficient to produce accurate financial statements.

Effect of Condition

The Municipal Capital Improvements Fund was incorrectly reported as a non-major fund. This major fund has assets of \$6,979,084 and revenue of \$2,001,067.

The City overstated federal expenditures for one program by \$4.5 million, resulting in unnecessary federal audit work being performed.

When managerial funds were combined into major funds for financial reporting, the City did not properly eliminate the transfers between the general fund and one of its managerial funds, overstating both transfers in and transfer out by \$778,849.

The errors noted were subsequently corrected.

Recommendations

We recommend the City improve internal controls to ensure they are adequate to:

- Correctly report major funds
- Accurately report federal expenditures
- Accurately eliminate managerial fund transfers

City's Response

The City of SeaTac appreciates the opportunity to respond to the observations drawn by the staff of the Washington State Auditor's Office. We would like to thank the audit staff for the continued open dialogue and communications throughout the audit. We have corrected the errors. The City understands the importance of having internal controls in place for the preparation and review of the financial statements and regrets the undetected errors. Unfortunately, the reason for these errors is that the City was short staff in 2016 and throughout 2017 resulting in a lack of resources and time for efficient review of the statements. The City believes there is now staff in place to strengthen the internal control over the preparation and review of the financial statements.

As difficult as it is to receive an audit finding, the City values the auditor's comments and recommendations and appreciates the knowledge and professionalism of their staff.

Auditor's Remarks

We thank the City for its cooperation and assistance during the audit and acknowledge its commitment to improving the condition described. We will review the status of this issue during our next audit.

Applicable Laws and Regulations

RCW 43.09.200 Local government accounting – uniform system of accounting.

Budgeting, Accounting and Reporting Systems Manual, 3.1.3, Internal Control.

Governmental Accounting Standards Board, Statement No. 34, paragraph 75-76.

Audit and Accounting Guides (AICPA), State and Local Governments, chapter 16 – Audit Reporting, paragraph 53.

Governmental Accounting, Auditing, and financial reporting chapter 13.

Government Auditing Standards, December 2011 Revision, paragraph 4.23 establishes reporting requirements related to significant deficiencies or material weaknesses in internal control, instances of fraud or abuse, and noncompliance with provisions of law, regulations, contracts, or grant agreements.

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its Codification of Statements on Auditing Standards, section 265, Communicating Internal Control Related Matters Identified in an Audit, paragraph 7.

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

**City of SeaTac
King County
January 1, 2016 through December 31, 2016**

City Council
City of SeaTac
SeaTac, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of SeaTac, King County, Washington, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated February 28, 2018.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Audit Findings and Responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Audit Findings and Responses as Finding 2016-001 to be material weaknesses.

COMPLIANCE AND OTHER MATTERS

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

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

CITY'S RESPONSE TO FINDINGS

The City's response to the findings identified in our audit is described in the accompanying Schedule of Audit Findings and Responses. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

PURPOSE OF THIS REPORT

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

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

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy

State Auditor

Olympia, WA

February 28, 2018

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

City of SeaTac King County January 1, 2016 through December 31, 2016

City Council
City of SeaTac
SeaTac, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of SeaTac, King County, Washington, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed on page 13.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment,

including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund and the aggregate remaining fund information of the City of SeaTac, as of December 31, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information listed on page 13 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated February 28, 2018 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Pat McCarthy
State Auditor
Olympia, WA

February 28, 2018

FINANCIAL SECTION

**City of SeaTac
King County
January 1, 2016 through December 31, 2016**

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2016

BASIC FINANCIAL STATEMENTS

Statement of Net Position – Government Wide – 2016

Statement of Activities – Government Wide – 2016

Balance Sheet – Governmental Funds – 2016

Reconciliation of Fund Balances of Governmental Funds to the Net Position of
Governmental Activities – 2016

Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental
Funds – 2016

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund
Balances of Governmental Funds to the Statement of Activities – 2016

Statement of Net Position – Proprietary Funds – 2016

Statement of Revenues, Expenses and Changes in Net Position – Proprietary Funds –
2016

Statement of Cash Flows – Proprietary Funds – 2016

Notes to Financial Statements – 2016

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual
– General Fund – 2016

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 – 2016

Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual–
– Street Fund – 2016

Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual–
– Hotel/Motel Tax Fund – 2016

Schedule of Funding Progress for LEOFF1 Retiree Medical Benefits – 2016

Schedule of Proportionate Share of Net Pension Liability – PERS 1 – 2016

Schedule of Proportionate Share of Net Pension Liability – PERS 2/3 – 2016

Schedule of Proportionate Share of Net Pension Liability – LEOFF 1 – 2016

Schedule of Employer Contributions – PERS 1 – 2016

Schedule of Employer Contributions – PERS 2/3 – 2016

Schedule of Employer Contributions – LEOFF 1 – 2016

INTRODUCTION

The City of SeaTac's Management Discussion and Analysis (MD&A) provides a narrative overview of the City's financial activities and position for the fiscal year ended December 31, 2016. Since the MD&A was designed to focus on the activities, resulting changes, and currently known facts for the year 2016, 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, 2016, total net position for the City was \$497 million. Of this amount, \$440 million or 88% was classified as investment in capital assets. This classification includes infrastructure, construction in progress, land and other improvements, buildings, equipment and intangibles. Net position in the amount of \$28 million or 5% was restricted for debt service, equipment, tourism promotion, and capital projects; including Des Moines Creek Basin Inter-local Agreement projects, transportation and facilities projects. The remaining net position balance of \$29 million or 6% was classified as unrestricted and available for general City operations.
- In October 2014, the City Council passed Ordinance #14-1015 establishing a 6% tax on the gross revenues of certain utilities operating within the City to provide revenues for City services and capital requirements. In December 2015, the City Council passed Ordinance #15-1021 repealing Ordinance #14-1015 effective March 1, 2016. Loss of revenue in 2016 from repealing the Utility Tax was estimated at \$2.7 Million.
- Governmental funds ended the year with \$61.5 million in total ending fund balance on the modified accrual basis of accounting. This is an increase of \$11.1 million or 22% over 2015 which ended the year with a \$50.4 million ending fund balance. A targeted reductions program was implemented mid-2016 in an effort to lessen the impact of the estimated revenue short fall. This program along with an unexpected increase in revenues resulted in a more favorable than anticipated ending fund balance.
- The Governmental Accounting Standards Board (GASB) issued Statement 68 - Accounting and Financial Reporting for Pensions, in 2012 for implementation to be effective with the end of year 2015. The requirement of this Statement improves and enhances accountability by requiring recognition of the entire net pension liability and a more comprehensive measure of pension expense. The City's Net Pension Obligation is reported as \$8.5 million in Governmental Activities and \$338,639 for Business-type Activities, an increase of 12% and 30% respectively.
- In late 2015, the City declared surplus the land known as the "Hughes Property" and executed an agreement for its sale. The sale closed in 2016 and proceeds in the amount of \$4,035,189 are reported in the Governmental funds as a Special Item.

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 Revenues, Expenditures, and Change in Net Position 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 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 2016, 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 2016, 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 important for 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

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 Statement of Net Position

| | Governmental Activities | | Business Type Activities | | Total | |
|---------------------------|-------------------------|----------------|--------------------------|---------------|----------------|----------------|
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| Assets: | | | | | | |
| Current & other assets | \$ 65,733,345 | \$ 54,882,415 | \$ 6,135,357 | \$ 5,074,747 | \$ 71,868,702 | \$ 59,957,162 |
| Net pension asset | 68,802 | | - | - | 68,802 | |
| Capital assets, net | 414,789,025 | 409,079,399 | 25,167,813 | 25,786,738 | 439,956,838 | 434,866,137 |
| Total Assets | 480,591,172 | 463,961,814 | 31,303,170 | 30,861,485 | 511,894,342 | 494,823,299 |
| Deferred Outflows | 1,369,921 | 852,400 | 80,953 | 48,119 | 1,450,874 | 900,519 |
| Liabilities: | | | | | | |
| Long-term liabilities | 4,004,240 | 4,873,343 | 32,835 | 22,943 | 4,037,075 | 4,896,286 |
| Net pension liability | 8,495,811 | 7,569,079 | 338,639 | 259,913 | 8,834,450 | 7,828,922 |
| Other liabilities | 2,652,631 | 1,723,427 | 74,407 | 92,289 | 2,727,038 | 1,815,716 |
| Total liabilities | 15,152,682 | 14,165,849 | 445,881 | 375,145 | 15,598,563 | 14,540,924 |
| Deferred Inflows | 430,246 | 1,236,566 | 32,770 | 75,507 | 463,016 | 1,312,073 |
| Net Position: | | | | | | |
| Net inv in capital assets | 414,789,025 | 409,079,399 | 25,167,813 | 26,423,379 | 439,956,838 | 435,502,778 |
| Restricted | 27,925,280 | 26,490,162 | - | - | 27,925,280 | 264,901,062 |
| Unrestricted | 23,663,861 | 13,842,238 | 5,737,659 | 4,035,573 | 29,401,520 | 17,877,811 |
| Total Net Position | \$ 466,378,166 | \$ 449,411,799 | \$ 30,905,472 | \$ 30,458,952 | \$ 497,283,638 | \$ 718,281,651 |

In 2016, the City's total net position increased by \$17.4 million. In addition, net investment in capital increased by \$5.1 million. The City spent approximately \$13.7 million on capital assets in 2016 with the bulk of the expenses going toward transportation improvements. The City's total restricted net position increased by \$1.4 million and unrestricted net position increased by \$11.5 million.

The City's net position for governmental activities includes \$27.9 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 \$23.6 million may be used to meet the government's ongoing obligations to citizens and creditors.

There are currently no net position restrictions for business-type activities. Unrestricted net position is \$5.7 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.

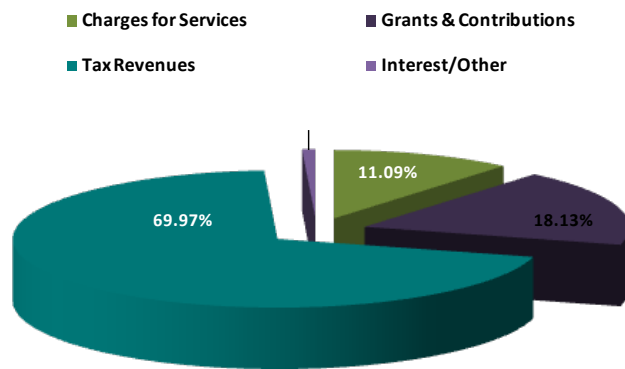
The table below represents a condensed version of the City's changes in net position. The table designates revenues as either program revenues or as general revenues. Program revenues are revenues generated by specific functions of the City. The expenses are listed by program or specific function. The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

City of SeaTac's Changes in Net Position

| Revenues: | Governmental Activities | | Business-type Activities | | Total | |
|---|-------------------------|-----------------------|--------------------------|----------------------|-----------------------|-----------------------|
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| Program Revenues: | | | | | | |
| Charges for services | \$ 6,632,937 | \$ 5,685,878 | \$ 2,703,563 | \$ 2,601,911 | \$ 9,336,500 | \$ 8,287,789 |
| Operating grants & contrib | 2,377,423 | 2,625,507 | 25,000 | - | 2,402,423 | 2,625,507 |
| Capital grants & contrib | 8,472,851 | 1,326,405 | - | - | 8,472,851 | 1,326,405 |
| General Revenues: | | | | | | |
| Property taxes | 14,649,534 | 13,205,487 | - | - | 14,649,534 | 13,205,487 |
| Sales taxes | 13,296,670 | 12,253,675 | - | - | 13,296,670 | 12,253,675 |
| Hotel/motel taxes | 1,701,016 | 1,666,054 | - | - | 1,701,016 | 1,666,054 |
| Parking taxes | 7,234,583 | 7,018,369 | - | - | 7,234,583 | 7,018,369 |
| Gambling taxes | 652,662 | 723,174 | - | - | 652,662 | 723,174 |
| Excise taxes | 3,618,247 | 3,573,537 | - | - | 3,618,247 | 3,573,537 |
| Utility taxes | 716,519 | 2,705,303 | - | - | 716,519 | 2,705,303 |
| Investment interest | 160,404 | 79,534 | 19,405 | 6,517 | 179,809 | 6,517 |
| Unrestrict grants & contrib | - | - | - | - | - | 79,534 |
| Gains on asset sales | 66,463 | 219,941 | - | - | 66,463 | - |
| Total Revenues | 59,579,309 | 51,082,864 | 2,747,968 | 2,608,428 | 62,327,277 | 53,471,351 |
| Expenses: | | | | | | |
| Judicial | 674,843 | 673,628 | - | - | 674,843 | 673,628 |
| General Government | 6,665,255 | 6,944,377 | - | - | 6,665,255 | 6,944,377 |
| Public Safety | 21,356,732 | 20,086,285 | - | - | 21,356,732 | 20,086,285 |
| Transportation | 6,624,420 | 5,414,910 | - | - | 6,624,420 | 5,414,910 |
| Health & Human Services | 793,816 | 784,876 | - | - | 793,816 | 7,484,879 |
| Physical & Economic Environment | 4,067,123 | 4,585,741 | 2,045,045 | 2,098,050 | 6,112,168 | 6,686,791 |
| Culture & Recreation | 3,898,783 | 4,317,514 | - | - | 3,898,783 | 4,317,514 |
| Interest on long-term debt | 27,116 | 188,224 | - | - | 27,116 | 188,224 |
| Total Expenses | 44,108,089 | 42,995,555 | 2,045,045 | 2,098,050 | 46,153,134 | 45,093,605 |
| Inc (Dec) in Net Position Before Transfers & Special Items | | | | | | |
| | 15,471,220 | 7,867,368 | 702,923 | 510,378 | 16,174,143 | 8,377,746 |
| Transfers | | | | | | |
| | 256,401 | 480,904 | (256,401) | (260,510) | - | 220,394 |
| Special Items: | | | | | | |
| Gain on sale of Hughes Property | 1,238,745 | - | - | - | 1,238,745 | - |
| Total Special Items | 1,238,745 | - | - | - | 1,238,745 | 219,941 |
| Inc (Dec) in Net Position | | | | | | |
| | 16,966,366 | 8,568,213 | 446,522 | 29,474 | 17,412,888 | 8,597,687 |
| Prior Year Adjustments | | | | | | |
| | - | (8,443,275) | - | (295,986) | - | (8,739,261) |
| Net Position-Beg (as restated) | 449,411,800 | 449,286,861 | 30,458,950 | 30,725,464 | 479,870,750 | 480,012,325 |
| Net Position-Ending | \$ 466,378,166 | \$ 449,411,799 | \$ 30,905,472 | \$ 30,458,952 | \$ 497,283,638 | \$ 479,870,751 |

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 \$8.4 million in grant revenues for capital purposes. Capital grants are up \$7.1 million from the prior year; 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 \$223 thousand over 2015.

Revenues by Source for Governmental Activities

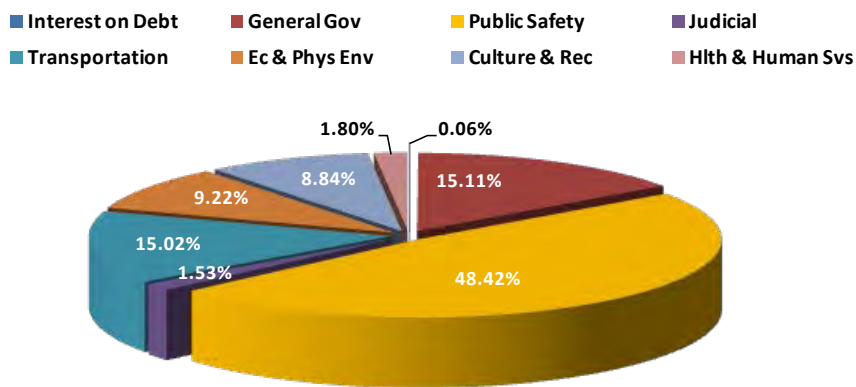


In 2016, tax revenues continue to rise for most tax categories ranging from a 1% increase in excise taxes to an 11% increase in property taxes. Positive economic activity continues in the travel and tourism industry helped to create positive results for both parking taxes and hotel/motel taxes which rose 3% and 2%, respectively. The Port of Seattle’s “2016 Airport Activity Highlights” reported that aircraft operations increased 8.1% over 2015, along with passenger levels which also increased 8%. Additionally, the Port of Seattle reported that air cargo increased by 10.2% from 2015 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.

For governmental activities, total expenses increased by \$1.2 million or 2.6% from 2015. Four out of the eight program areas in governmental activities had expense increases in 2016 ranging from 0.2% in Judicial to 22.3% in Transportation. Four programs saw decreased expenses in 2016 ranging from 85.6% (interest on long-term debt) to a 4% decrease in the spending of the general government.

In 2016, Transportation related expenses increased by 22.3%. The City had a number of infrastructure construction projects that were in various phases of construction or planning. The largest on-going project is the extension of roadway on the S 28th/24th St 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. The first half of 2016 was spent in the

Expenses by Function for Governmental Activities



planning phases and construction began in mid 2016. Funding partners on this project include the Washington State Department of Transportation, the Port of Seattle and Sound Transit.

Public Safety expenses experienced an increase of \$1.2 million or 6.3% over 2015. This is due solely to an increase in Police, Fire, and Animal Control contracts.

Business-type Activities: Net position increased by \$447 thousand in 2016 as compared to a \$267 thousand decrease in 2015 (due to GASB 68 Adjustment). In 2016, net position rose due to an increase in surface water utility rates, operating grants received and a decrease in expenses.

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 four 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. 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 major funds, the resources are non-spendable, restricted or assigned to other purposes.

At the end of 2016, the City's combined ending governmental fund balance was \$58.3 million versus the 2015 ending fund balance of \$43.2 million. Included in the 2016 ending fund balance is \$1.0 million in non-spendable prepayments, \$28.5 million in restricted fund balances (i.e. transportation, tourism, capital projects, etc.) and \$7.6 million in fund balances 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.

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 2015 and 2016, property taxes recorded into the General Fund equaled approximately \$13.2 million and \$14.6 million, respectively. The property tax levy continues to increase as result of new development, a promising indicator of an increasing property tax base.

In 2016, sales taxes recorded into the General Fund were \$13.2 million compared to \$12.3 million in 2015. 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.

The fund balance of the General Fund at the end of 2016 was \$22.3 million which is \$4.4 million increase over 2015. 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: Port of Seattle ILA Fund - \$1.6 million, Transit Planning - \$359 thousand, Building Management Fund - \$3 million, and Facility Repair & Replacement – \$309 thousand for a total of \$5.2 million. The fifth fund, Contingency Reserve Fund, was closed and the remaining fund balance of \$777 thousand was transferred to the General Fund. 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 \$11 million in fund balance which is an increase of approximately \$2.6 million from 2015. The increase was due to the completion of one large infrastructure project early in the year and the gearing up for another to begin late in the year.

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 2016 for this Fund was \$7.5 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 2016 brought in a record amount of lodging tax revenue at \$1.357 million. 2014 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 were \$3.6 million in 2016. The Seattle Southside Regional Tourism Authority (SSRTA) manages these funds used for tourism promotion services for the purpose of growing the City's tourism industry. The SSRTA is presented as a component unit on the Government-wide Financial Statements.

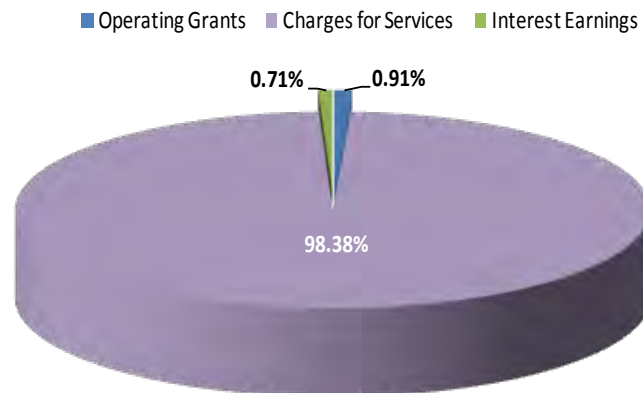
The Municipal Facilities Capital Improvement Fund is a capital projects fund whose purpose is to account for the expenditures related to major municipal capital projects including the purchase of land and the construction or major renovation of buildings. Although this Fund did not meet the GASB Statement 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 2016, the revenue source for this Fund was investment earnings and proceeds from the sale of the Hughes Property. At the end of 2016, the fund balance in the Municipal Facilities Capital Improvement Fund was \$1.1 million.

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 2016, the major revenue sources for this Fund included a \$4.5 million U.S Department of Transportation Federal Highway Administration Grant, \$2.7 million from Sound Transit and \$1.2 million in proceeds from the sale of the Hughes Property for the Connecting 28th/24th Ave. project. The Street Fund transferred \$2 million into this Fund to pay for three projects, including two sidewalk projects and a roadway project.

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, \$5.5 million or 18% was unrestricted. The other \$25.1 million or 82% was classified as investment in capital assets. The chart above shows the major revenue sources (excluding transfers in) for the Surface Water Utility by percentage for 2016.

Revenues by Source for Business-type Activities



GENERAL FUND BUDGETARY HIGHLIGHTS

On a budgetary basis, the General Fund finished the 2015-2016 biennium with \$16.5 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 2015-2016 was \$8.8 million. The actual ending fund balance exceeded the original budget by \$7.2 million or 88%. Actual revenues (excluding transfers in) for the biennium were \$72.9 million or \$4.867 million over the original estimate. The area with the highest positive variance was taxes. Assessed valuation in the City has continued to rise, since hitting a low in 2013, creating a budget excess in this area of \$1.2 million. Increased property and sales tax collections helped to make up some of the repealed utility tax shortfall.

The General Fund's actual expenditures (excluding transfers out) were \$68.1 million for 2015-2016. The original 2015-2016 appropriation was \$69.9 million while the final budget was \$70.1 million. Final budget savings of almost \$2 million in the General Fund resulted from targeted department efficiencies and program delivery savings.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

At the end of 2016, the City had \$414.7 million (net of accumulated depreciation) in governmental activities capital assets, including one internal service fund, and \$25.1 million (net) in business-type activities. Total internal service fund capital assets (net) were just under \$1.9 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 2016:

City of SeaTac's Capital Assets

| Capital Assets: | Governmental Activities | | Business-type Activities | | Total | |
|------------------------------|-------------------------|----------------|--------------------------|---------------|----------------|----------------|
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| Land | \$ 321,612,036 | \$ 324,408,480 | \$ - | \$ - | \$ 321,612,036 | \$ 324,408,480 |
| Intangible Assets-Easements | 127,978 | 127,978 | 35,442 | 35,442 | 163,420 | 163,420 |
| Constr in Progress (CIP) | 15,566,674 | 19,346,767 | - | - | 15,566,674 | 19,346,767 |
| Buildings/Building Impr | 48,425,161 | 44,336,405 | 228,560 | 228,560 | 48,653,721 | 44,564,965 |
| Other Improvements | 12,628,650 | 12,592,164 | 32,911,167 | 32,911,167 | 45,539,817 | 45,503,331 |
| Infrastructure | 98,458,034 | 85,245,358 | - | - | 98,458,034 | 85,245,358 |
| Equipment/Vehicles | 2,150,690 | 1,938,377 | 12,918 | 12,918 | 2,163,608 | 1,951,295 |
| Equipment/Vehicles-Eq Rental | 3,838,362 | 3,753,048 | - | - | 3,838,362 | 3,753,048 |
| Intangible Assets-Software | 635,474 | 635,474 | 156,634 | 115,024 | 792,108 | 750,498 |
| Less: Depreciation | (88,654,032) | (83,304,654) | (8,176,908) | (7,516,372) | (96,830,941) | (90,821,026) |
| Total Capital Assets (Net) | \$ 414,789,026 | \$ 409,079,397 | \$ 25,167,813 | \$ 25,786,739 | \$ 439,956,839 | \$ 434,866,136 |

In 2016, the largest change in capital assets occurred in infrastructure and construction in progress for governmental activities. The City completed construction of various capital projects including: South 168th Street sidewalks (34th Ave South to Military Road South), 24th Avenue South Overlay (South 154th to South 142nd), 37th and 40th Avenue South sidewalks and Fire Station #45 replacement. The Connecting 28th/24th Avenue South is estimated to be completed in 2018.

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 2016, 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 2015 and 2016 by type:

| | Governmental Activities | | Business-type Activities | | Total | |
|--------------------------|-------------------------|--------------|--------------------------|------|--------------|--------------|
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| General Obligation Bonds | \$ 650,000 | \$ 955,000 | \$ - | \$ - | \$ 650,000 | \$ 955,000 |
| Special Obligation Bonds | 2,349,450 | 2,411,400 | - | - | 2,349,450 | 2,411,400 |
| Total | \$ 2,999,450 | \$ 3,366,400 | \$ - | \$ - | \$ 2,999,450 | \$ 3,366,400 |

General Obligation Debt

According to Washington State law, the City's debt capacity for general government purposes is limited to 4% or \$196.5 million of the City's assessed valuation. Of this 4%, the City Council has the authority to issue bonds and/or approve lease purchase agreements up to 1.5% or \$70.6 million. At the end of 2016, the City's assessed valuation was \$4,912,255,243 which is a 17% increase from 2015. The 2016 assessed valuation is used to calculate taxes to be collected in 2017. The City had \$3.0 million in outstanding councilmanic (non-voted) general obligation debt including the special obligation bonds issued by SCORE (South Correctional Entity) at the end of 2016. 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 \$368.4 million of the City's assessed valuation.

Revenue Debt

At the end of 2016, 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 2016, the City had no 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 2016 Notes to the Financial Statements.

ECONOMIC FACTORS AND THE BUDGET

For the 2015-2016 biennium, the General Fund's ending fund balance was estimated at \$10 million. Four newly elected Council member positions at the beginning of 2016 produced a change in the financial strategies employed by the previous elected leadership in setting the 2015-2016 budget limits. The Council increased the General Fund's target fund balance of three months of operating expenditures of approximately \$8.8 million to four months, or \$11.7 million. It should be noted that 2015 was the first year operating under the reduced expenditure levels that were part of the balancing plan for 2015-2016. This included eliminating 4.8 full-time equivalents (FTE's) and targeted cuts to training and professional services. The 4 month reserves goal continued the managed reductions into 2016. On the revenue side, the fee schedule was revised in 2015 to increase permit and other related fees, business license fees and a new utility tax was established. The utility tax remained for the 2015 period, but was sunset in February of 2016 and Council did not re-enact this tax for the 2017-2018 budget.

For the past ten years, economic development has been a Council priority and viewed as a significant strategy for reaching and maintaining the City's financial sustainability. New development opportunities planned for the Angle Lake and Airport Station Areas are now being realized with several commercial and residential developments either completed, underway or in the design phase. These developments are valued at over \$300 million and will provide significant one-time fee revenue as well as increased sales, real estate excise, lodging and property taxes to the City for years to come. Work is also underway on the future redevelopment of the City-owned SeaTac Center property in the 154th Street Station Area into a mixed-use transit oriented development that will include substantial residential and commercial components. In the near future, vacant Port of Seattle property within the City limits will also be developed for productive uses that will add both jobs and tax revenue to the City's economy. A partnership between

the cities of SeaTac, Des Moines and Tukwila that established the Seattle Southside Tourism Promotion Area in 2014 has resulted in the investment of over \$3.5 million annually for the marketing of this sector of the economy.

The table below 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 reflect a debit balance. Much of this difference is covered with inter-fund transfers including reimbursements of General Fund administrative and maintenance charges, or sales tax revenue from capital projects that were recorded into the Municipal Capital Improvements Fund.

General Fund Budget vs. Actual

| | 2011-2012 Final | 2013-2014 Final | 2015-2016 Final |
|-----------------------|--------------------|--------------------|--------------------|
| Budget: | | | |
| Budgeted Revenues | \$ 54,488,795 | \$ 59,545,908 | \$ 68,104,144 |
| Budgeted Expenditures | \$ 59,328,665 | \$ 65,450,693 | \$ 70,168,679 |
| Budgeted Difference | \$ (4,839,870) | \$ (5,904,785) | \$ (2,064,535) |
| Actual: | | | |
| Actual Revenues | \$ 55,608,879 | \$ 59,181,562 | \$ 72,950,304 |
| Actual Expenditures | \$ 57,336,155 | \$ 64,989,397 | \$ 68,185,724 |
| Actual Difference | \$ (1,727,276) | \$ (5,807,835) | \$ 4,764,580 |

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

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, 2016

| | Governmental Activities | Business-type Activities | Total | SSRTA Comp Unit |
|---|----------------------------|-----------------------------|-----------------------|---------------------|
| Assets | | | | |
| Cash & cash equivalents | \$ 55,802,500 | \$ 5,700,289 | \$ 61,502,789 | \$ 2,190,611 |
| Receivables (net) | | | | |
| Taxes | 4,180,287 | - | 4,180,287 | - |
| Customer accounts & contracts | 1,678,265 | 160,000 | 1,838,265 | 4,308 |
| Special assessments | - | - | - | - |
| Interest | 875 | - | 875 | - |
| Due from other governments | 255,248 | 62,569 | 317,817 | 866,828 |
| Internal balances | (212,278) | 212,278 | - | - |
| Prepaid items | 1,007,366 | 221 | 1,007,587 | 72,488 |
| Investment in joint venture | 3,021,079 | - | 3,021,079 | - |
| Capital assets not being depreciated: | | | | |
| Land | 321,612,036 | - | 321,612,036 | - |
| Intangible assets - Easements | 127,978 | 35,442 | 163,420 | - |
| Intangible assets - Trademarks | - | - | - | 7,665 |
| Construction in progress | 15,566,674 | - | 15,566,674 | 137,775 |
| Capital assets, net of accum deprec (Note 6): | | | | |
| Buildings | 29,364,591 | 166,926 | 29,531,517 | - |
| Improvements other than buildings | 5,616,646 | 24,903,401 | 27,642,139 | - |
| Equipment, vehicles & software | 2,479,549 | 62,044 | 2,541,593 | 60,870 |
| Infrastructure | 40,021,553 | - | 42,899,462 | - |
| Net Pension Asset | 68,802 | - | 68,802 | - |
| Total Assets | \$ 480,591,172 | \$ 31,303,170 | \$ 511,894,342 | \$ 3,340,545 |
| Deferred Outflows of Resources | | | | |
| Deferred Outflow of Resources - Pension | 1,369,921 | 80,953 | 1,450,874 | 255,588 |
| Total Assets & Deferred Outflows | 481,961,093 | 31,384,123 | 513,345,216 | 3,596,133 |
| Liabilities | | | | |
| Accounts payable & accrued expenses | 1,843,967 | 63,604 | 1,907,572 | 153,924 |
| Due to other governments | 28 | 9,074 | 9,102 | - |
| Custodial accounts & other current liab | 305,538 | - | 305,538 | - |
| Unearned revenue | 68,019 | - | 68,019 | - |
| Noncurrent liabilities (Note 10): | | | | |
| Due within one year | 435,077 | 1,728 | 433,349 | 31,136 |
| Due in more than one year | 4,004,240 | 32,835 | 3,971,405 | 508,277 |
| Net Pension Obligation | 8,495,811 | 338,639 | 8,834,450 | - |
| Total Liabilities | \$ 15,152,682 | \$ 376,754 | \$ 15,529,435 | \$ 693,337 |
| Deferred Inflows of Resources | | | | |
| Deferred Inflow of Resources - Pensions | 430,246 | 32,770 | 463,016 | 7,895 |
| Total Liabilities & Deferred Inflows | 15,582,928 | 409,524 | 15,992,451 | 701,232 |
| Net Position | | | | |
| Investment in capital assets | 414,789,025 | 25,167,813 | 439,956,838 | 206,310 |
| Restricted for: | | | | |
| Tourism promotion & facilities | 6,888,086 | - | 6,888,086 | - |
| Debt service | 382,774 | - | 382,774 | - |
| Capital projects & equipment | 2,469,557 | - | 2,469,557 | - |
| Transportation | 15,533,249 | - | 15,533,249 | - |
| Des Moines Creek Basin ILA projects | 2,651,613 | - | 2,651,613 | - |
| Net Pension Asset | 68,802 | - | 68,802 | - |
| Unrestricted | 23,595,059 | 5,737,659 | 29,332,718 | 2,688,591 |
| Total Net Position | \$ 466,378,166 | \$ 30,905,472 | \$ 497,283,638 | \$ 2,894,901 |

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

Statement of Activities
For the Year Ended December 31, 2016

| | Expenses | Program Revenues | | |
|--|----------------------|----------------------|----------------------------------|--------------------------------|
| | | Charges for Services | Operating Grants & Contributions | Capital Grants & Contributions |
| Functions/Programs | | | | |
| Governmental Activities: | | | | |
| Judicial | \$ 674,843 | \$ 615,981 | \$ 6,133 | \$ - |
| General Government | 6,646,036 | 1,800,850 | 384,013 | 1,643 |
| Public Safety | 21,375,952 | 238,171 | 655,590 | - |
| Transportation | 6,624,420 | 149,456 | 706,191 | 8,405,121 |
| Health & Human Services | 793,816 | - | 81,498 | - |
| Physical & Economic Environment | 4,067,123 | 2,889,402 | 536,497 | - |
| Culture & Recreation | 3,898,783 | 939,077 | 7,500 | 66,088 |
| Interest on long-term debt | 27,116 | - | - | - |
| Total Governmental Activities | 44,108,089 | 6,632,937 | 2,377,423 | 8,472,851 |
| Business-type Activities: | | | | |
| Surface Water Utilities | 2,045,045 | 2,703,563 | 25,000 | - |
| Total Business-type Activities | 2,045,045 | 2,703,563 | 25,000 | - |
| Component Unit Activities | | | | |
| Seattle Southside Regional Tourism Authority | 4,248,883 | 16,876 | 1,130,507 | - |
| Total Component Unit Activities | 4,248,883 | 16,876 | 1,130,507 | - |
| Total Government | \$ 50,402,017 | \$ 9,353,376 | \$ 3,532,930 | \$ 8,472,851 |

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 | SSRTA Comp Unit |
| Functions/Programs | | | | |
| Governmental Activities: | | | | |
| Judicial | \$ (52,728) | \$ - | \$ (52,728) | \$ - |
| General Government | (4,478,750) | - | (4,478,750) | - |
| Public Safety | (20,462,971) | - | (20,462,971) | - |
| Transportation | 2,636,347 | - | 2,636,347 | - |
| Health & Human Services | (712,318) | - | (712,318) | - |
| Physical & Economic Environment | (641,225) | - | (641,225) | - |
| Culture & Recreation | (2,886,118) | - | (2,886,118) | - |
| Interest on long-term debt | (27,116) | - | (27,116) | - |
| Total Governmental Activities | (26,624,879) | - | (26,624,879) | - |
| Business-type Activities: | | | | |
| Surface Water Utilities | - | 683,519 | 683,519 | - |
| Total Business-type Activities | - | 683,519 | 683,519 | - |
| Component Unit Activities | | | | |
| Seattle Southside Regional Tourism Authority | - | - | - | (3,101,500) |
| Total Component Unit Activities | - | - | - | (3,101,500) |
| Total Government | \$ (26,624,879) | \$ 683,519 | \$ (25,941,360) | \$ (3,101,500) |
| General Revenues | | | | |
| Property taxes | 14,649,534 | - | 14,649,534 | - |
| Retail sales & use taxes | 13,296,670 | - | 13,296,670 | - |
| Hotel/Motel taxes | 1,701,016 | - | 1,701,016 | - |
| Parking taxes | 7,234,583 | - | 7,234,583 | - |
| Gambling taxes | 652,662 | - | 652,662 | - |
| Excise taxes | 3,618,247 | - | 3,618,247 | - |
| Utility taxes | 716,519 | - | - | - |
| Special Assessments | - | - | - | 3,602,592 |
| Unrestricted investment earnings | 160,404 | 19,405 | 179,809 | 2,440 |
| Gain on sale of capital assets | 66,463 | - | 66,463 | - |
| Total General Revenues | 42,096,099 | 19,405 | 41,398,985 | 3,605,032 |
| Transfers | 256,401 | (256,401) | - | - |
| Total General Revenues & Transfers | 42,352,500 | (236,996) | 41,398,985 | 3,605,032 |
| Special Items | | | | |
| Sale of Hughes Property | 1,238,745 | - | 1,238,745 | - |
| Total Special Items | 1,238,745 | - | 1,238,745 | - |
| Change in Net Position | 16,966,366 | 446,522 | 17,412,889 | 503,532 |
| Net Position-Beginning | 449,411,800 | 30,458,950 | 479,870,750 | 2,391,369 |
| Net Position-Ending | \$ 466,378,166 | \$ 30,905,472 | \$ 497,283,639 | \$ 2,894,901 |

Balance Sheet
December 31, 2016

| | General | Special Revenue | | Debt Service |
|--|----------------------|----------------------|---------------------|-------------------------|
| | | Street | Hotel/Motel Tax | Special Assessment Debt |
| Assets | | | | |
| Cash & cash equivalents | \$ 19,155,158 | \$ 10,540,253 | \$ 7,356,590 | \$ - |
| Receivables (net of allowance for uncollectibles): | | | | |
| Taxes | 3,082,330 | 618,140 | 199,539 | - |
| Customer accounts & contracts | 1,050,830 | - | - | - |
| Special assessments | - | - | - | - |
| Interest & penalties | 875 | - | - | - |
| Due from other governments | 165,627 | 89,621 | - | - |
| Prepaid items | 1,001,336 | 374 | 4,762 | - |
| Total Assets | \$ 24,456,157 | \$ 11,248,388 | \$ 7,560,891 | \$ - |
| Liabilities | | | | |
| <i>Current Liabilities:</i> | | | | |
| Accounts & other payable | 875,682 | 115,257 | 37 | - |
| Due to other governments | 28 | - | - | - |
| Custodial & deposits payable | 256,873 | 48,665 | - | - |
| Unearned revenue | 68,019 | - | - | - |
| Total Liabilities | 1,200,603 | 163,922 | 37 | - |
| Deferred Inflows of Resources | | | | |
| Unavail revenue-grants/interlocal | 78,255 | - | - | - |
| Unavail revenue-property taxes | 178,185 | - | - | - |
| Unavail revenue-court fines | 566,405 | - | - | - |
| Unavail revenue-leases/permits | 121,480 | - | - | - |
| Unavail revenue-sp assess/int/pen | - | - | - | - |
| Total Def Inflows of Resources | 944,325 | - | - | - |
| Fund Balances (Deficits) | | | | |
| Nonspendable: | | | | |
| Prepayments | 1,001,336 | 374 | 4,762 | - |
| Restricted: | | | | |
| Transportation | - | 11,084,092 | - | - |
| Tourism promotion & facilities | - | - | 7,556,092 | - |
| Des Moines Creek Basin ILA | - | - | - | - |
| Open space & trails | - | - | - | - |
| Capital projects & equipment | - | - | - | - |
| Debt service | - | - | - | - |
| Assigned: | | | | |
| Fire equipment replacement | - | - | - | - |
| Light Rail Station projects | - | - | - | - |
| Capital projects & equipment | - | - | - | - |
| 2015-2016 excess budget approp | 127,178 | - | - | - |
| Unassigned | 21,182,716 | - | - | - |
| Total Fund Balances | 22,311,229 | 11,084,466 | 7,560,854 | - |
| Total Liab, Def Inflows of Res & Fund Balances (Deficits) | \$ 24,456,158 | \$ 11,248,388 | \$ 7,560,891 | \$ - |

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

Governmental Funds - City of SeaTac, WA

| | Capital Impr | | | | Total Governmental Funds |
|--|--------------------------------------|-----------------------------|-----------------------|--------------------------------|--------------------------------|
| | Municipal Capital Improvements | Municipal Facilities CIP | Transportation CIP | Other Governmental Funds | |
| Assets | | | | | |
| Cash & cash equivalents | \$ 6,698,807 | \$ 1,101,406 | \$ 4,694,215 | \$ 4,913,056 | \$ 54,459,484 |
| Receivables (net of allow- ance for uncollectibles): | | | | | |
| Taxes | 280,277 | - | - | - | 4,180,287 |
| Customer accounts & contracts | - | - | 627,435 | - | 1,678,265 |
| Special assessments | - | - | - | - | - |
| Interest & penalties | - | - | - | - | 875 |
| Due from other governments | - | - | - | - | 255,248 |
| Prepaid items | - | - | - | - | 1,006,472 |
| Total Assets | \$ 6,979,084 | \$ 1,101,406 | \$ 5,321,649 | \$ 4,913,056 | \$ 61,580,631 |
| Liabilities | | | | | |
| <i>Current Liabilities:</i> | | | | | |
| Accounts & other payable | 18,182 | - | 806,609 | 4,867 | 1,820,634 |
| Due to other governments | - | - | - | - | 28 |
| Custodial & deposits payable | - | - | - | - | 305,538 |
| Unearned revenue | - | - | - | - | 68,019 |
| Total Liabilities | 18,182 | - | 806,609 | 4,867 | 2,194,220 |
| Deferred Inflows of Resources | | | | | |
| Unavail revenue-grants/interlocal | - | - | 66,257 | - | 144,512 |
| Unavail revenue-property taxes | - | - | - | - | 178,185 |
| Unavail revenue-court fines | - | - | - | - | 566,405 |
| Unavail revenue-leases/permits | - | - | - | - | 121,480 |
| Unavail revenue-sp assess/int/pen | 400 | - | - | - | 400 |
| Total Def Inflows of Resources | 400 | - | 66,257 | - | 1,010,982 |
| Fund Balances (Deficits) | | | | | |
| Nonspendable: | | | | | |
| Prepayments | - | - | - | - | 1,006,472 |
| Restricted: | | | | | |
| Transportation | - | - | 4,448,783 | - | 15,532,875 |
| Tourism promotion & facilities | - | - | - | - | 7,556,092 |
| Des Moines Creek Basin ILA | - | - | - | 2,651,613 | 2,651,613 |
| Open space & trails | - | - | - | - | - |
| Capital projects & equipment | 1,669,557 | - | - | 800,000 | 2,469,557 |
| Debt service | - | - | - | 382,774 | 382,774 |
| Assigned: | | | | | |
| Fire equipment replacement | - | - | - | - | - |
| Light Rail Station projects | - | - | - | 1,073,801 | 1,073,801 |
| Capital projects & equipment | 5,290,945 | 1,101,406 | - | - | 6,392,351 |
| 2015-2016 excess budget approp | - | - | - | - | 127,178 |
| Unassigned | - | - | - | - | 21,182,716 |
| Total Fund Balances | 6,960,502 | 1,101,406 | 4,448,783 | 4,908,189 | 58,375,429 |
| Total Liab, Def Inflows of Res & Fund Balances (Deficits) | \$ 6,979,084 | \$ 1,101,406 | \$ 5,321,649 | \$ 4,913,056 | \$ 61,580,631 |

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

City of SeaTac, WA – Net Position Reconciliation

**Reconciliation of Fund Balances of Governmental Funds
to the Net Position of Governmental Activities
December 31, 2016**

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

| | | |
|---|----|---------------------------|
| Governmental funds total fund balance on December 31, 2016 (as shown on the Balance Sheet for Governmental Funds) | \$ | 58,375,429 |
| Capital assets used in governmental activities are not financial resources and are not reported in the individual governmental funds. | | |
| These capital assets consist of: | | |
| Land | \$ | 321,612,036 |
| Intangibles - easements | | 127,977 |
| Construction in progress | | 15,566,674 |
| Buildings & structures | | 48,425,161 |
| Other improvements | | 12,628,650 |
| Infrastructure | | 98,458,034 |
| Equipment | | 2,150,689 |
| Intangibles - software | | 635,476 |
| Less: accumulated depreciation | | <u>(86,695,514)</u> |
| | | 412,909,182 |
| Investments in joint ventures are not a financial resource and, therefore, are not reported in the governmental funds. | | 3,021,079 |
| Other long-term assets are not available to pay current period expenditures and, therefore, are reported as unavailable revenue in the governmental funds. | | 1,010,985 |
| Some deferred outflows will not be utilized in the current period and, therefore, are not reported in the individual governmental funds, this includes the Deferred Pension Outflow | | 1,366,338 |
| Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the individual governmental funds. | | |
| These long-term liabilities consist of: | | |
| Bonds payable | \$ | (2,999,450) |
| Premium on bond issue (amortized over life of debt) | | (22,768) |
| Pension Obligation | | (8,412,014) |
| Deferred Pension Inflows | | (428,795) |
| Other post employment benefits payable | | (630,302) |
| Compensated absences payable | | <u>(780,347)</u> |
| | | (13,211,726) |
| 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>2,968,829</u> |
| Net position of governmental activities | \$ | <u><u>466,378,166</u></u> |
| (as shown on the Government-wide Statement of Net Position) | | |

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, 2016**

| | General | Street | Hotel/Motel Tax | Special Assessment Debt |
|--|----------------------|----------------------|---------------------|----------------------------|
| Revenues | | | | |
| Taxes | \$ 31,077,207 | \$ 7,234,583 | \$ 1,357,516 | \$ - |
| Licenses & permits | 2,244,381 | - | - | - |
| Intergovernmental & contributions | 1,410,390 | 649,067 | 6,255 | - |
| Charges for services | 1,428,297 | 4,451 | - | - |
| Fines & forfeitures | 619,093 | - | - | - |
| Investment & other earnings | 112,788 | 36,456 | 27,414 | 634 |
| Net Change in FV of investments | - | - | - | - |
| Special assessments | - | - | - | - |
| Rent & leases | 1,297,902 | 6,900 | - | - |
| Miscellaneous | 415,775 | 13,373 | - | - |
| Total Revenues | 38,605,831 | 7,944,830 | 1,391,184 | 634 |
| Expenditures | | | | |
| Current: | | | | |
| Judicial | 671,832 | - | - | - |
| General Government | 6,659,420 | - | - | - |
| Public Safety | 21,009,836 | - | - | - |
| Physical Environment | - | - | - | - |
| Transportation | 885,938 | 1,908,118 | - | - |
| Health & Human Services | 793,020 | - | - | - |
| Economic Environment | 1,921,019 | 72,184 | 1,089,273 | - |
| Culture & Recreation | 3,080,517 | - | - | - |
| Debt Service: | | | | |
| Principal | - | - | - | - |
| Interest & other costs | - | - | - | - |
| Capital Outlay: | | | | |
| General Government | 97,600 | - | - | - |
| Public Safety | - | - | - | - |
| Transportation | - | 933,939 | - | - |
| Economic Environment | - | - | - | - |
| Culture & Recreation | 29,855 | - | - | - |
| Total Expenditures | 35,149,036 | 2,914,241 | 1,089,273 | - |
| Excess (deficiency) of revenues over (under) expenditures | 3,456,795 | 5,030,589 | 301,912 | 634 |
| Other Financing Sources (Uses) | | | | |
| Transfers in | 1,771,387 | - | - | - |
| Transfers out | (879,974) | (2,395,050) | - | (363,842) |
| Total Other Fin Sources (Uses) | 891,413 | (2,395,050) | - | (363,842) |
| Special Items | | | | |
| Proceeds from sale of Land | - | - | - | - |
| Total Special Items | - | - | - | - |
| Net Change in Fund Balances | 4,348,208 | 2,635,539 | 301,912 | (363,208) |
| Fund Balances-Beg (as prev repts) | 17,963,021 | 8,448,927 | 7,258,943 | 363,208 |
| Prior Year Adjustment | - | - | - | - |
| Fund Balances-January 1st | 17,963,021 | 8,448,927 | 7,258,943 | 363,208 |
| Fund Balances-December 31st | \$ 22,311,229 | \$ 11,084,466 | \$ 7,560,854 | \$ - |

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

Governmental Funds - City of SeaTac, WA

| | Municipal Capital Improvements | Municipal Facilities CIP | Transportation CIP | Other Governmental Funds | Total Governmental Funds |
|--|--------------------------------------|-----------------------------|-----------------------|--------------------------------|--------------------------------|
| Revenues | | | | | |
| Taxes | \$ 1,637,786 | \$ - | \$ - | \$ 550,959 | \$ 41,858,050 |
| Licenses & permits | - | - | - | - | 2,244,381 |
| Intergovernmental & contributions | 67,731 | - | 8,405,121 | 213,791 | 10,752,354 |
| Charges for services | 272,264 | - | 254,235 | - | 1,959,247 |
| Fines & forfeitures | (983) | - | - | - | 618,110 |
| Investment & other earnings | 21,269 | 3,808 | 13,812 | 18,476 | 234,654 |
| Net Change in FV of investments | - | - | - | - | - |
| Special assessments | - | - | - | - | - |
| Rent & leases | - | - | - | - | 1,304,802 |
| Miscellaneous | 3,000 | - | - | - | 432,148 |
| Total Revenues | 2,001,067 | 3,808 | 8,673,167 | 783,226 | 59,403,746 |
| Expenditures | | | | | |
| Current: | | | | | |
| Judicial | - | - | - | - | 671,832 |
| General Government | 19,775 | - | - | - | 6,679,195 |
| Public Safety | - | - | - | - | 21,009,836 |
| Physical Environment | - | - | - | - | - |
| Transportation | - | - | - | - | 2,794,055 |
| Health & Human Services | - | - | - | - | 793,020 |
| Economic Environment | - | - | - | 60,400 | 3,142,876 |
| Culture & Recreation | 6,393 | - | - | - | 3,086,910 |
| Debt Service: | | | | | |
| Principal | - | - | - | 305,000 | 305,000 |
| Interest & other costs | - | - | - | 38,500 | 38,500 |
| Capital Outlay: | | | | | |
| General Government | 100,860 | - | - | - | 198,461 |
| Public Safety | - | 459,035 | - | - | 459,035 |
| Transportation | - | - | 12,940,777 | - | 13,874,716 |
| Economic Environment | - | - | - | 7,048 | 7,048 |
| Culture & Recreation | 106,051 | - | - | - | 135,906 |
| Total Expenditures | 233,080 | 459,035 | 12,940,777 | 410,948 | 53,196,389 |
| Excess (deficiency) of revenues over (under) expenditures | 1,767,987 | (455,227) | (4,267,610) | 372,277 | 6,207,356 |
| Other Financing Sources (Uses) | | | | | |
| Transfers in | 101,125 | - | 2,000,000 | 148,567 | 4,021,079 |
| Transfers out | - | - | - | (9,989) | (3,648,855) |
| Total Other Fin Sources (Uses) | 101,125 | - | 2,000,000 | 138,578 | 372,224 |
| Special Items | | | | | |
| Proceeds from sale of Land | 1,563,189 | 1,182,000 | 1,290,000 | - | 4,035,189 |
| Total Special Items | 1,563,189 | 1,182,000 | 1,290,000 | - | 4,035,189 |
| Net Change in Fund Balances | 3,432,301 | 726,773 | (977,610) | 510,855 | 10,614,770 |
| Fund Balances-Beg (as prev reptd) | 3,528,201 | 374,633 | 5,426,394 | 4,397,333 | 47,760,660 |
| Prior Year Adjustment | - | - | - | - | - |
| Fund Balances-Beginning | 3,528,201 | 374,633 | 5,426,394 | 4,397,333 | 47,760,660 |
| Fund Balances-Ending | \$ 6,960,502 | \$ 1,101,406 | \$ 4,448,783 | \$ 4,908,189 | \$ 58,375,429 |

**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, 2016**

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

| | |
|--|---------------|
| Net change in fund balance for all governmental funds combined (as shown on the Statement of Revenues, Expenditures and Changes in Fund Balances for Governmental Funds) | \$ 10,614,770 |
|--|---------------|

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 | 13,734,166 | |
| Depreciation expense | <u>(5,501,031)</u> | 8,233,134 |

In the Statement of Activities, only the gain (loss) on the sale of assets is reported.

| | |
|--|-------------|
| In the governmental funds, the proceeds from the sale of the assets increases financial resources, thus causing a reporting difference when assets are disposed of (sold, traded-in or donated). The net effect of various miscellaneous transactions involving capital assets (i.e. sales, transfers, etc) is to decrease net position. | (2,760,474) |
|--|-------------|

| | |
|---|----------|
| Investment in joint ventures are not considered financial resources and are, therefore, not reported in the governmental funds. | (64,438) |
|---|----------|

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 Position. These debt related items consist of:

| | | |
|---------------------------|----------------|---------|
| Premium on debt refunding | 11,384 | |
| Debt principal repayments | <u>305,000</u> | 316,384 |

| | |
|--|---------|
| Governmental funds report pension expenditures when due and payable from current financial resources. However, in the Statement of Activities, pension expense is measured by the change in net pension assets, net pension liabilities, and related deferred outflows and inflows. This is the net difference in pension expense. | 430,865 |
|--|---------|

| | |
|---|---------|
| 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. | 187,961 |
|---|---------|

| | | |
|--|----------------|--------|
| 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 other post employment benefits | (58,965) | |
| Net decrease in compensated absences | <u>106,577</u> | 47,612 |

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 | 10,092 | |
| Gain on sale of capital assets | 66,463 | |
| Transfers involving other funds (net) | <u>(115,823)</u> | <u>(39,268)</u> |
| Change in net position of governmental activities (as shown on the Statement of Activities-Governmental Activities) | | <u>\$ 16,966,366</u> |

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

Statement of Net Position
December 31, 2016

| | Business-type Activities | | Governmental Activities |
|---|-----------------------------|-----------------------------|--|
| | Surface Water Utility | Total Enterprise Funds | Internal Service Fund- Equipment Rental |
| Assets | | | |
| Current Assets: | | | |
| Cash & cash equivalents | \$ 5,700,289 | \$ 5,700,289 | \$ 1,343,016 |
| Investments | - | - | - |
| Customer receivables (net) | 222,569 | 222,569 | - |
| Interest receivable | - | - | - |
| Prepaid items | 221 | 221 | 894 |
| Restricted cash & investments: | | | |
| Total Current Assets | <u>5,923,079</u> | <u>5,923,079</u> | <u>1,343,910</u> |
| Noncurrent Assets: | | | |
| Capital assets (net of accumulated depreciation): | | | |
| Buildings | 166,926 | 166,926 | - |
| Other improvements | 24,903,401 | 24,903,401 | - |
| Vehicles and equipment | 8,680 | 8,680 | 1,879,843 |
| Intangible assets - software | 53,364 | 53,364 | - |
| Intangible assets - easements | 35,442 | 35,442 | - |
| Construction in progress | - | - | - |
| Total Noncurrent Assets | <u>25,167,813</u> | <u>25,167,813</u> | <u>1,879,843</u> |
| Total Assets | <u>\$ 31,090,892</u> | <u>\$ 31,090,892</u> | <u>\$ 3,223,753</u> |
| Deferred Outflows of Resources | | | |
| Deferred Outflows Related to Pensions | \$ 80,953 | \$ 80,953 | \$ 3,583 |
| Liabilities | | | |
| Current Liabilities: | | | |
| Accounts payable | 63,604 | 63,604 | 23,333 |
| Due to other governments | 9,074 | 9,074 | - |
| Compensated absences | 1,728 | 1,728 | 323 |
| Total Current Liabilities | <u>74,407</u> | <u>74,407</u> | <u>23,656</u> |
| Noncurrent Liabilities: | | | |
| Compensated absences | 32,835 | 32,835 | 6,128 |
| Net pension liability | 338,639 | 338,639 | 14,995 |
| Total Noncurrent Liabilities | <u>371,474</u> | <u>371,474</u> | <u>21,123</u> |
| Total Liabilities | <u>445,881</u> | <u>445,881</u> | <u>44,778</u> |
| Deferred Inflows of Resources | | | |
| Deferred Inflows Related to Pensions | 32,770 | 32,770 | 1,451 |
| Net Position | | | |
| Investment in capital assets | 25,167,813 | 25,167,813 | 1,879,843 |
| Restricted for: | | | |
| Debt service | - | - | - |
| Unrestricted | 5,525,381 | 5,525,381 | 1,301,264 |
| Total Net Position | <u>\$ 30,693,194</u> | <u>\$ 30,693,194</u> | <u>\$ 3,181,107</u> |
| Cumulative adjustment to reflect the consolidation of the Equipment Rental Internal Service Fund activities as related to enterprise funds over time. | | | |
| Net position of business-type activities | | <u>\$ 30,905,472</u> | |

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

**Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended December 31, 2016**

| | Business-type Activities | | Governmental Activities |
|--|--------------------------|------------------------|--|
| | Surface Water Utility | Total Enterprise Funds | Internal Service Fund-Equipment Rental |
| Operating Revenues | | | |
| Charges for Services: | | | |
| Total Operating Revenues | 2,703,563 | 2,703,563 | 534,600 |
| Operating Expenses | | | |
| Maintenance & operations | 1,388,804 | 1,388,804 | 256,866 |
| Administrative & general | - | - | - |
| Depreciation | 660,536 | 660,536 | 270,509 |
| Total Operating Expenses | 2,049,340 | 2,049,340 | 527,376 |
| Operating Income (Loss) | 654,223 | 654,223 | 7,224 |
| Nonoperating Revenues (Exps) | | | |
| Taxes | - | - | - |
| Intergovernmental revenues | 25,000 | 25,000 | - |
| Investment earnings | 19,405 | 19,405 | 5,371 |
| Gain (loss) on disposal of assets | - | - | 66,463 |
| Misc nonoperating revs (exps) | 385 | 385 | 1,404 |
| Total Nonoperating Revs (Exps) | 44,790 | 44,790 | 73,239 |
| Income (Loss) Before Contributions & Transfers | 699,013 | 699,013 | 80,463 |
| Transfers in | 7,989 | 7,989 | - |
| Transfers out | (264,390) | (264,390) | (115,823) |
| Change in Net Position | 442,612 | 442,612 | (35,360) |
| Net Position-Beginning | 30,250,581 | | 3,216,467 |
| Net Position-Ending | \$ 30,693,193 | | \$ 3,181,107 |

An Equipment Rental Internal Service Fund is used to charge the cost of equipment repairs & replacements to individual funds. This is the current year adjustment for this internal service fund that is reported with the business-type activities in the Statement of Activities.

3,908

Change in net position of business-type activities

\$ 446,519

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

Statement of Cash Flows
For the Year Ended December 31, 2016

| | Business-type Activities-Enterprise Funds | | Governmental Activities |
|--|---|---------------------------|----------------------------|
| | Surface Water Utility | Total Enterprise Funds | Internal Service Funds |
| Cash Flows from Operating Activities: | | | |
| Receipts from customers | \$ 2,444,812 | \$ 2,444,812 | \$ - |
| Receipts from other funds | 163,329 | 163,329 | 534,600 |
| Payments to suppliers | (497,688) | (497,688) | (241,547) |
| Payments to employees | <u>(895,731)</u> | <u>(895,731)</u> | <u>(1,488)</u> |
| Net Cash Provided (Used) by Operating Activities | 1,214,722 | 1,214,722 | 291,565 |
| Cash Flows from Noncapital Financing Activities: | | | |
| Intergovernmental revenue | 25,000 | 25,000 | |
| Transfers from other funds | 7,989 | 7,989 | - |
| Transfers to other funds | (264,390) | (264,390) | (115,823) |
| Nonoperating revenue received | <u>385</u> | <u>385</u> | <u>1,404</u> |
| Net Cash Provided (Used) by Noncapital Financing Activities | (231,016) | (231,016) | (114,419) |
| Cash Flows from Capital & Related Financing Activities: | | | |
| Proceeds from sale of assets | - | - | 66,463 |
| Purchase of capital assets | <u>(41,609)</u> | <u>(41,609)</u> | <u>(507,475)</u> |
| Net Cash Provided (Used) by Capital & Related Financing Activities | (41,609) | (41,609) | (441,012) |
| Cash Flows from Investing Activities: | | | |
| Interest received | <u>19,405</u> | <u>19,405</u> | <u>5,371</u> |
| Net Cash Provided (Used) by Investing Activities | <u>19,405</u> | <u>19,405</u> | <u>5,371</u> |
| Net Increase (Decrease) in Cash and Cash Equivalents | <u>961,502</u> | <u>961,502</u> | <u>(258,495)</u> |
| Cash & Cash Equivalents-Beginning* | <u>4,738,787</u> | <u>4,738,787</u> | <u>1,601,511</u> |
| Cash & Cash Equivalents-Ending | <u>\$ 5,700,289</u> | <u>\$ 5,700,289</u> | <u>\$ 1,343,016</u> |

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

| | 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) | \$ 654,223 | \$ 654,223 | \$ 7,224 |
| Adjustments to reconcile operating income to net cash provided (used) by operating activities: | | | |
| Depreciation | 660,536 | 660,536 | 270,509 |
| Pension Expense | 3,155 | | 140 |
| (Incr) decr in accts receivable | (95,422) | (95,422) | - |
| (Incr) decr in prepaid expenses | 221 | 221 | (894) |
| Incr (decr) in accounts payable | (19,611) | (19,611) | 16,213 |
| Incr (decr) in due to other governments | - | - | - |
| Incr (decr) in compensated absences | 11,620 | 11,620 | (1,627) |
| Total adjustments | 560,499 | 560,499 | 284,341 |
| Net Cash Provided (Used) by Operating Activities | \$ 1,214,722 | \$ 1,214,722 | \$ 291,566 |

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.

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 Financial Statements includes all funds that are controlled by or are dependent on the City of SeaTac. The component unit discussed below is included in the City's reporting entity because of the significance of its operational or financial relationships with the component unit.

The Seattle Southside Regional Tourism Authority (SSRTA) was established by an inter-local agreement between the cities of SeaTac, Tukwila, and Des Moines to provide tourism promotion services to the City of SeaTac. The City of SeaTac appoints the voting majority of the Board of Directors for the SSRTA.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Revenues, Expenditures and Change in Net Position) report information on all of the non-fiduciary activities of the primary government. The effect of inter-fund activity has been removed from the government-wide statements. Governmental activities, which normally are supported by taxes, intergovernmental revenues and other non-exchange 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 Revenues, Expenditures and Change in Net Position 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 and proprietary funds. 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 non-major 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, utility 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 inter-fund 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 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 (inter-fund 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 non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. 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 non-operating revenues and expenses.

The City reports a proprietary fund as follows:

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.

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 inter-fund 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, 2009 LTGO Refunding Bonds & SCORE Bond Fund), Capital Project Funds (Municipal Capital Improvement, Municipal Facilities CIP, Transportation CIP and Light Rail CIP), Enterprise Fund (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. The City’s first 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, 2016, the City had holdings of \$61,502,789 (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.

At December 31, 2016, the City's total cash and cash equivalents (including cash restricted for debt) consisted of the following:

| | |
|---|---------------------|
| US Bank, General Fund Checking Account | \$13,861,117 |
| US Bank, Municipal Court Checking Account..... | 22,800 |
| Bank of America, General Fund Checking Account..... | 46,796 |
| Cash with Kidder Mathews..... | 31,781 |
| Cash Equivalents with State Treasurer's Investment Pool | 47,530,394 |
| City Hall Postage Meter Fund..... | 8,000 |
| Petty Cash/Change Funds..... | 1,900 |
| Total Cash and Cash Equivalents..... | <u>\$61,502,789</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 \$10 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 Note 4 Deposits and Investments)

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 bankers 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.

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, Inter-fund 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 inter-fund 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 inter-fund loans receivable and payable is furnished in Note 15 Inter-fund Balances & Transfers.

Advances between funds (long-term inter-fund loans), as reported in the fund financial statements, are offset by a non-spendable 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 inter-fund loans or advances outstanding in 2016.

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, Inter-local 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. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of all state sponsored pension plans and additions to/deductions from those plans’ fiduciary net position have been determined on the same basis as they are reported by the Washington State Department of Retirement Systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value

10. Compensated Absences

The City records an estimated liability for unused vacation, sick leave, floating holiday and compensatory time. Generally, upon separation from employment 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.

At the end of 2016, total compensated absences liability was \$780,347 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. 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, 2016 was \$34,563. It is estimated that \$1,728 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 \$6,451 and it is estimated that \$323 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.

11. Other Accrued Liabilities

These accounts consist of accrued employee benefits.

12. Long-Term Debt

All long-term obligations from governmental funds are reported in the government-wide financial statements. All 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.

13. Unearned Revenues

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

14. 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:

Non-spendable: 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 non-spendable 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.

15. Minimum Fund Balance

For the General Fund, the City has established a minimum fund balance policy of four months (33%) 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 was funded with general and unrestricted revenues of the City as the City Council deemed appropriate. With the issuance of GASB Statement No. 54, the Contingency Fund no longer met the definition of a special revenue fund since the resources in the fund were not derived from a special restricted or committed revenue source. During the mid-biennium adjustment of 2015-2016 the Council approved transferring the funds to the General Fund and incorporating the balance into the 4 month operating reserve established in the budget policy. The Operating Reserve 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. Moneys shall be 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.

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 provides 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 \$212,278 difference are as follows:

| | |
|--|------------------|
| Internal receivable representing charges in excess of cost to business-type activities – prior years | \$208,370 |
| Internal receivable representing charges under cost to business-type activities – current year | <u>3,908</u> |
| Net adjustment to increase net position – total enterprise funds to arrive at net position – business-type activities | <u>\$212,278</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 PDPC.

As of December 31, 2016, the City held the investments listed below, including Investments in the State Treasurer's Local Government Investment Pool (LGIP or the 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 | \$47,530,394 | \$47,530,394 |
| Total Investments | | | \$47,530,394 | \$47,530,394 |

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 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 2016, due to low interest rates, the City had no investments outside of the LGIP. In December 2016, the LGIP's investments had net earnings rate of .5075%.

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 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 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, 2016 account statement is the same as the value of the pool shares.

Credit Risk: No credit rating is available for the 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 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 30 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 1, and 8 percent (current year tax only) on amount unpaid on December 1. Second half taxes must be paid or postmarked (U.S. Postal Service postmark) by October 31 or they become delinquent on November 1 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 \$2.995 per \$1,000 of assessed value. Based on a City-wide assessed valuation of \$4,935,361,365 the total property tax levy for 2016 was \$14,714,271 (Note: Property taxes collected in 2016 are based on the 2015 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.

The table below summarizes the changes in the City's governmental capital assets during 2016. Please note that \$1,879,842 (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 01/01/2016 | Increases | Decreases | Transfers In/ (Out) | Ending Balance 12/31/2016 |
|---|------------------------------------|---------------------|-----------------------|------------------------|---------------------------------|
| Capital assets not being depreciated: | | | | | |
| Land | \$324,408,480 | \$0 | \$(2,796,444) | \$0 | \$321,612,036 |
| Intangible Assets–Easements | 127,978 | 0 | 0 | 0 | 127,978 |
| Construction in Progress (CIP) | 19,346,767 | 10,977,044 | (14,757,137) | 0 | 15,566,674 |
| Total assets not being deprec. | 343,883,225 | 10,977,044 | (17,553,581) | 0 | 337,306,688 |
| Capital assets being depreciated: | | | | | |
| Buildings/Bldg Improvements | 44,336,405 | 4,088,756 | 0 | 0 | 48,425,161 |
| Other Improvements | 12,592,164 | 36,486 | 0 | 0 | 12,628,650 |
| Infrastructure | 85,245,348 | 13,212,676 | 0 | 0 | 98,458,034 |
| Equipment/Vehicles | 1,938,377 | 212,313 | 0 | 0 | 2,150,690 |
| Equipment/Vehicles (Eq Rental) | 3,753,048 | 555,825 | (470,511) | 0 | 3,838,362 |
| Intangible Assets-Software | 635,474 | 0 | 0 | 0 | 635,474 |
| Total assets being depreciated | 148,500,826 | 18,106,056 | (470,511) | 0 | 166,136,370 |
| Total governmental capital assets before depreciation | \$492,384,051 | \$29,083,100 | \$(18,024,092) | \$0 | \$503,443,059 |
| Less accumulated depreciation for: | | | | | |
| Buildings/Bldg Improvements | (17,151,356) | (1,909,214) | 0 | 0 | (19,060,570) |
| Other Improvements | (6,437,077) | (574,927) | 0 | 0 | (7,012,004) |
| Equipment/Vehicles | (1,569,691) | (104,837) | 0 | 0 | (1,674,528) |
| Equipment/Vehicles (Eq Rental) | (2,110,173) | (270,509) | 422,162 | 0 | (1,958,520) |
| Infrastructure | (55,558,572) | (2,877,909) | 0 | 0 | (58,436,481) |
| Intangible Assets-Software | (477,785) | (34,144) | 0 | 0 | (511,929) |
| Total accumulated depreciation | (83,304,654) | (5,771,541) | 422,162 | 0 | (88,654,033) |
| Total governmental activities capital assets (net) | \$409,079,397 | \$23,311,559 | \$(17,601,930) | \$0 | \$414,789,026 |

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

| Governmental Activities: | |
|---|--------------------|
| Judicial | \$2,337 |
| General Government | 515,156 |
| Public Safety | 1,215,341 |
| Physical & Economic Environment | 24,623 |
| Transportation | 2,905,303 |
| Transportation (Equipment Rental – Internal Service Fund) | 270,509 |
| Culture & Recreation | 838,272 |
| Total Depreciation Expense-Governmental Activities | \$5,771,541 |

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 2016:

| Business-Type Activities Capital Assets | Beginning Balance 01/01/2016 | Increases | Decreases | Transfers In & (Out) | Ending Balance 12/31/2016 |
|---|------------------------------------|--------------------|------------|-------------------------|---------------------------------|
| Capital assets not being depreciated: | | | | | |
| Construction in Progress | \$0 | \$0 | \$0 | \$0 | \$0 |
| Intangible Assets-Easements-SWM | 35,442 | 0 | 0 | 0 | 35,442 |
| Total assets not being depreciated | 35,442 | 0 | 0 | 0 | 35,442 |
| Capital assets being depreciated: | | | | | |
| Buildings-SWM | 228,560 | 0 | 0 | 0 | 228,560 |
| Other Improvements-SWM | 32,911,167 | 0 | 0 | 0 | 32,911,167 |
| Equipment-SWM | 12,918 | 0 | 0 | 0 | 12,918 |
| Intangible Assets-Software-SWM | 115,024 | 41,160 | 0 | 0 | 156,634 |
| Total assets being depreciated | 33,267,669 | 41,610 | 0 | 0 | 33,309,279 |
| Total business-type capital assets before depreciation | \$33,303,111 | \$41,610 | \$0 | \$0 | \$33,344,721 |
| Less accumulated depreciation for: | | | | | |
| Buildings | (56,474) | (5,161) | 0 | 0 | (61,635) |
| Other Improvements | (7,367,446) | (640,319) | 0 | 0 | (8,007,765) |
| Equipment | (1,250) | (2,988) | 0 | 0 | (4,238) |
| Intangible Assets-Software | (91,202) | (12,068) | 0 | 0 | (103,270) |
| Total accumulated depreciation | (7,516,372) | (660,536) | 0 | 0 | (8,176,908) |
| Total bus-type capital assets (net) | \$25,786,739 | \$(618,926) | \$0 | \$0 | \$25,167,813 |

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

| Business-type Activities: | |
|--|------------------|
| Utilities/Physical Environment (Surface Water Utility) | \$660,536 |
| Total Depreciation Expense-Business-type Activities | \$660,536 |

C. Construction Commitments

The following table describes the active construction projects on December 31, 2016 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 | \$4,029,274 | \$460,721 |
| Ceccanti, Inc. - Connecting 28 th /24 th Avenue South - Construction | 8,502,295 | 6,434,232 |
| Porter Bothers Construction – Fire station #45 - Construction | 2,659,659 | 264,193 |
| Ervin Lovett Miller, Inc. - Riverton Heights Property Development | 26,690 | 7,310 |
| John Barker Landscape Architect - Angle Lake to Hughes Property Trail | 9,990 | 29,485 |
| Total Outstanding Construction Commitments | \$15,227,908 | \$7,195,941 |

NOTE 7: PENSION PLANS

The following table represents the aggregate pension amounts for all plans subject to the requirements of the GASB Statement 68, Accounting and Financial Reporting for Pensions for the year 2016:

| Aggregate Pension Amounts – All Plans | |
|---------------------------------------|---------------|
| Pension liabilities | \$(8,834,450) |
| Pension assets | \$ 68,802 |
| Deferred outflows of resources | \$1,450,876 |
| Deferred inflows of resources | \$ (463,016) |
| Pension expense/expenditures | \$ 466,865 |

A. State Sponsored 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 and defined contribution retirement plans. The state Legislature establishes, and amends, laws pertaining to the creation and administration of all public retirement systems.

The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to:

Department of Retirement Systems
 Communications Unit
 P.O. Box 48380
 Olympia, WA 98540-8380

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

B. Public Employees' Retirement System (PERS)

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

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

Contributions

The **PERS Plan 1** member contribution rate is established by State statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2016 were as follows:

| PERS Plan 1 | | |
|----------------------------|---------------|--------------|
| Actual Contribution Rates: | Employer | Employee* |
| PERS Plan 1 | 6.23% | 6.00% |
| PERS Plan 1 UAAL | 4.77% | 6.00% |
| Administrative Fee | 0.18% | |
| Total | 11.18% | 6.00% |

PERS Plan 2/3 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service for Plan 2 and 1 percent of AFC for Plan 3. The AFC is the average of the member's 60 highest-paid consecutive service months. There is no cap on years of service credit. Members are eligible for retirement with a full benefit at 65 with at least five years of service credit. Retirement before age 65 is considered an early retirement. PERS Plan 2/3 members who have at least 20 years of service credit and are 55 years of age or older, are eligible for early retirement with a benefit that is reduced by a factor that varies according to age for each year before age 65. PERS Plan 2/3 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions:

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

PERS Plan 2/3 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of five percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service credit. PERS Plan 2/3 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other PERS Plan 2/3 benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the CPI), capped at three percent annually and a one-time duty related death benefit, if found eligible by the Department of Labor and Industries. PERS 2 members are vested after completing five years of eligible service. Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service if 12 months of that service are earned after age 44.

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

Contributions

The **PERS Plan 2/3** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2016 were as follows:

| PERS Plan 2/3 | | |
|----------------------------|---------------|--------------|
| Actual Contribution Rates: | Employer 2/3 | Employee 2* |
| PERS Plan 2/3 | 6.23% | 6.12% |
| PERS Plan 1 UAAL | 4.77% | |
| Administrative Fee | 0.18% | |
| Employee PERS Plan 3 | | varies |
| Total | 11.18% | 6.12% |

The City’s actual PERS plan contributions were \$7,169 to PERS Plan 1 and \$937,548 to PERS Plan 2/3 for the year ended December 31, 2016.

C. Law Enforcement Officers’ and Fire Fighters’ Retirement System (LEOFF)

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

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

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

The FAS is the basic monthly salary received at the time of retirement, provided a member has held the same position or rank for 12 months preceding the date of retirement. Otherwise, it is the average of the highest consecutive 24 months' salary within the last ten years of service. Members are eligible for retirement with five years of service at the age of 50. Other benefits include duty and non-duty disability payments, a cost-of living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. LEOFF 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30, 1977.

Contributions

Starting on July 1, 2000, **LEOFF Plan 1** employers and employees contribute zero percent, as long as the plan remains fully funded. The LEOFF Plan I had no required employer or employee contributions for fiscal year 2016. Employers paid only the administrative expense of 0.18 percent of covered payroll.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2016 with a valuation date of June 30, 2015. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) *2007-2012 Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2015 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2016. Plan liabilities were rolled forward from June 30, 2015, to June 30, 2016, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- **Inflation:** 3.0% total economic inflation; 3.75% salary inflation
- **Salary increases:** In addition to the base 3.75% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- **Investment rate of return:** 7.5%

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

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

- For all systems, except LEOFF Plan 2, the assumed valuation interest rate was lowered from 7.8% to

- 7.7%. Assumed administrative factors were updated.
- Valuation software was corrected on how the non-duty disability benefit for LEOFF Plan 2 active members is calculated.
- New LEOFF Plan 2 benefit definitions were added within the OSA valuation software to model legislation signed into law during the 2015 legislative session.

Discount Rate

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

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

Long-Term Expected Rate of Return

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

Estimated Rates of Return by Asset Class

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan’s target asset allocation as of June 30, 2016, are summarized in the table below. The inflation component used to create the table is 2.2 percent and represents the WSIB’s most recent long-term estimate of broad economic inflation.

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

Sensitivity of the Net Pension Liability/(Asset)

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

| | 1% Decrease (6.5%) | Current Discount Rate (7.5%) | 1% Increase (8.5%) |
|----------|-----------------------|---------------------------------|-----------------------|
| PERS 1 | \$4,883,609 | \$4,409,765 | \$3,332,191 |
| PERS 2/3 | 8,809,466 | 4,784,685 | (2,490,705) |
| LEOFF 1 | (40,871) | (68,802) | (92,677) |

Pension Plan Fiduciary Net Position

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

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

At June 30, 2016, the City reported a total pension liability of \$8,834,450 for its proportionate share of the net pension liabilities as follows:

| | Liability (or Asset) |
|----------|----------------------|
| PERS 1 | \$4,049,765 |
| PERS 2/3 | 4,784,685 |
| LEOFF 1 | (68,802) |

The amount of the asset reported above for LEOFF Plan 1 reflects a reduction for State pension support provided to the City. The amount recognized by the City as its proportionate share of the net pension asset, the related State support, and the total portion of the net pension asset that was associated with the City were as follows:

| | LEOFF 1 Asset |
|---|---------------|
| Employer's proportionate share | (68,802) |
| State's proportionate share of the net pension asset associated with the employer | (465,378) |
| TOTAL | (534,181) |

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

| | Proportionate Share 6/30/15 | Proportionate Share 6/30/16 | Change in Proportion |
|----------|--------------------------------|--------------------------------|----------------------|
| PERS 1 | .080985% | .075408% | .005577% |
| PERS 2/3 | .102779 | .095030 | .007749% |
| LEOFF 1 | .006607 | .006678 | .000071% |

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

LEOFF Plan 1 allocation percentages are based on the total historical employer contributions to LEOFF 1 from 1971 through 2000 and the retirement benefit payments in fiscal year 2016. Historical data was obtained from a 2011 study by the Office of the State Actuary (OSA). In fiscal year 2016, the state of Washington contributed 87.12 percent of LEOFF 1 employer contributions and all other employers contributed the remaining 12.88 percent of employer contributions. LEOFF 1 is fully funded and no further employer contributions have been required since June 2000. If the plan becomes underfunded, funding of the remaining liability will require new legislation. The allocation method the plan chose reflects the projected long-term contribution effort based on historical data.

In fiscal year 2016, the state of Washington contributed 39.46 percent of LEOFF 2 employer contributions pursuant to RCW 41.26.725 and all other employers contributed the remaining 60.54 percent of employer contributions.

The collective net pension liability (asset) was measured as of June 30, 2016, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2015, with update procedures used to roll forward the total pension liability to the measurement date.

Pension Expense

For the year ended December 31, 2016, the City recognized pension expense as follows:

| | Pension Expense |
|----------|-----------------|
| PERS 1 | (\$ 90,536) |
| PERS 2/3 | 567,011 |
| LEOFF 1 | (9,610) |
| TOTAL | \$466,865 |

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| PERS 1 | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|--------------------------------|-------------------------------|
| Differences between expected and actual experience | \$0 | \$0 |
| Net difference between projected and actual investment earnings on pension plan investments | \$101,967 | \$0 |
| Changes of assumptions | \$0 | \$0 |
| Changes in proportion and differences between contributions and proportionate share of contributions | \$0 | \$0 |
| Contributions subsequent to the measurement date | \$198,110 | \$0 |
| TOTAL | \$300,077 | \$0 |

| PERS 2/3 | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|--------------------------------|-------------------------------|
| Differences between expected and actual experience | \$254,781 | (\$157,950) |
| Net difference between projected and actual investment earnings on pension plan investments | \$585,507 | \$0 |
| Changes of assumptions | \$49,454 | \$0 |
| Changes in proportion and differences between contributions and proportionate share of contributions | \$0 | (\$305,066) |
| Contributions subsequent to the measurement date | \$254,064 | \$0 |
| TOTAL | \$1,143,803 | (\$463,016) |

| LEOFF 1 | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|--------------------------------|-------------------------------|
| Differences between expected and actual experience | \$0 | \$0 |
| Net difference between projected and actual investment earnings on pension plan investments | \$6,944 | \$0 |
| Changes of assumptions | \$0 | \$0 |
| Changes in proportion and differences between contributions and proportionate share of contributions | \$0 | \$0 |
| Contributions subsequent to the measurement date | \$0 | \$0 |
| TOTAL | \$6,944 | \$0 |

Deferred outflows of resources related to pensions resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows (prepare a separate table for each plan):

| Year ended December 31: | PERS 1 |
|----------------------------|------------|
| 2017 | (\$25,106) |
| 2018 | (\$25,106) |
| 2019 | \$93,645 |
| 2020 | \$58,534 |
| 2021 | \$0 |
| Thereafter | \$0 |

| Year ended December 31: | PERS 2/3 |
|----------------------------|------------|
| 2017 | (\$99,057) |
| 2018 | (\$99,057) |
| 2019 | \$362,627 |
| 2020 | \$262,214 |
| 2021 | \$0 |
| Thereafter | \$0 |

D. City of SeaTac 401 (a) Money Purchase Retirement Trust

The City of SeaTac 401 (a) 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. 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 retirement 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 coverage.

As of December 31, 2016, there were 102 active members in the City of SeaTac Retirement Trust. Actual employee contributions during the year amounted to \$511,272. Actual employer contributions were \$405,308.94.

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 retirement account 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 retirement 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 \$6,507 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

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. Traveler's was the City's commercial insurance carrier in 2016 and the commercial insurance broker was Leavitt Group.

In July 2016, the City of SeaTac was ordered to pay an 18.3MM judgment, which included interest and attorney's fees, in a land use lawsuit. The judgment is currently pending appeal.

The City's 2016 commercial insurance policies, limits, and deductibles are as follows:

| Coverage Type | Limits | Deductible |
|--------------------------------------|--|--------------------------------------|
| Property-Blanket Building & Contents | \$53,963,332 | \$5,000 |
| 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 | \$1,000 |
| 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 2015 in any of the major categories of risk. Other than the 18.3MM judgment pending appeal, 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, 2016, 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 2016 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 | \$650,000 |
| Total General Obligation Bonds | | \$2,675,000 | \$650,000 |
| 2009 South Correctional Entity Facility Public Development Authority Bonds Series 2009A Bonds (2015/2016/2017/2021/2022) | 4.00% - 5.00% | \$246,150 | \$186,450 |
| 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 | \$2,163,000 |
| Total Special Obligation Bonds (Contractual) | | \$2,587,050 | \$2,999,450 |

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 |
| 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 2016, the City has used 4.0% 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 \$70.6 million remaining in available debt capacity. For voted debt (up to 2.5% of total taxable property), the City has \$119.8 million in remaining debt capacity. There is currently no voted debt outstanding. (Note: If the City issued the full \$70.6 million of Councilmanic debt, only \$49.2 million in voted debt could be issued for general purposes.)

The City had no arbitrage rebate liability for outstanding tax exempt bonds in 2016.

At December 31, 2016, the City had \$383,074 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. The LID bond payment obligations were paid in full; fiduciary guarantee funds are no longer obligated and were returned to the General Fund.

NOTE 11: LEASES

A. Operating Lease Receivables

The City has five cancelable lease agreements to lease out portions of the second floor in City Hall. The City also has three lease agreements to house antennas on roofs of City buildings. One antenna is on the roof of City Hall, one is on the roof of the Maintenance Facility, and 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.

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 2016, accumulated depreciation on the building was \$5.9 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 2016, 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 following table:

| | Tenant #1 | Tenant #2 | Tenant #3 | | Tenant #4 | | Tenant #5 |
|--------------------------|--|---|--|--|---|---------------------------|--|
| Square Footage | 6,336 | 4,232 | 1,427 | 1,969 | 7,426 | | 904 |
| Commencement Date | 1/1/2014 | 8/7/2015 | 9/1/2011 | 2/1/2011 | 2/1/2012 | | 7/1/2013 |
| Termination Date | 12/31/2017 | 8/31/2017 | 1/31/2019 | 1/31/2016 | 7/31/2017 | | 6/30/2016 |
| Contract Terms | Lease extension: \$18 sq ft w/3% increase annually + 236 sq ft storage | \$3,526 per mth for 2 years | Lease #1: \$15.00 sq ft w/3% increase annually | Lease #2: \$15.00 sq ft w/3% increase annually | 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 | 3,204 | 1,406 |
| Commencement Date | 12/15/2007 | 1/1/2012 | 11/1/2012 | | 6/1/2014 | 5/1/2016 | 7/1/2014 |
| Termination Date | 4/15/2018 | 12/31/2016 | 9/30/2018 | | 5/31/2018 | 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 | | Lease #1: Year 1: \$4,954 per mth; Years 2-4 \$5,078 per mth | Lease #2: \$2,942 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 31.

| | |
|-----------------------------------|--------------------|
| 2017 | 658,487 |
| 2018 | 364,691 |
| 2019 | <u>58,619</u> |
| Total min lease payments required | <u>\$1,081,797</u> |

NOTE 12: CHANGES IN LONG-TERM LIABILITIES

During the year ended December 31, 2016, the following changes occurred in long-term liabilities:

| | Beginning Balance 01/01/16 | Additions | Reductions | Ending Balance 12/31/16 | Due Within One Year |
|---|----------------------------------|------------------|--------------------|----------------------------|------------------------|
| Governmental Activities: | | | | | |
| Bonds payable: | | | | | |
| General obligation bonds | \$955,000 | \$0 | \$(305,000) | \$650,000 | \$320,000 |
| Special obligation bonds | 2,411,400 | 0 | (61,500) | 2,349,450 | 64,350 |
| Add: Premium on GO bonds | 34,153 | 0 | (11,384) | 22,769 | 11,384 |
| Total bonds payable - net | \$3,400,553 | \$0 | \$(378,334) | \$3,022,219 | \$395,734 |
| Other post-employ benefits-NOO | 571,338 | 125,114 | (66,150) | \$630,302 | N/A |
| Compensated absences | 893,375 | 2,976 | (116,004) | 780,347 | 39,017 |
| Compensated absences-ISF | 8,077 | 0 | (1,627) | 6,450 | 323 |
| Gov activities long-term liabilities | \$8,273,896 | \$128,090 | \$(183,781) | \$1,417,099 | \$39,340 |
| Business-type Activities: | | | | | |
| Compensated absences | \$22,943 | \$11,639 | \$(19) | \$34,563 | \$1,728 |
| Bus-type activities long-term liab | \$22,943 | \$11,639 | \$(19) | \$34,563 | \$1,728 |

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 \$6,450 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 has recorded in its financial statements all material liabilities, including an estimate for situations which are not yet resolved but where, based on available information, management believes it is probable that the City will have to make payment. In the opinion of management, the City's insurance policies are adequate to pay all known or pending claims. In addition, management reports the following lawsuit that has not been resolved:

K&S Developments, LLC v. City of SeaTac, Case No.: 12-2-40564-6KNT, King County Superior Court. K&S Developments prevailed in a lawsuit against the City resulting in January, 2016 jury verdict against the City. The Court entered a judgment in the amount of \$18,306,810.02 on July 8, 2016. This case was settled in October, 2017 for \$13.0 million. The City paid \$4.25 million of the settlement, that will be reflected in the City's 2017 financial statements. The balance of the settlement was paid by insurance.

The City's insurer filed a declaratory judgment action in the United States District Court Western District of Washington (St. Paul Fire and Marine Insurance Company v. City of SeaTac, et al, Case No.: 2:16-cv-00103) seeking a determination that they owe no indemnity obligation to the City. This matter was dismissed as part of the above settlement.

Management 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.

NOTE 14: RESTRICTED COMPONENT OF NET POSITION

The government-wide Statement of Net Position reports \$27,994,081 in restricted net assets. None of the restrictions were from enabling legislation.

NOTE 15: INTER-FUND BALANCES & TRANSFERS

During 2016, the City had a number of inter-fund transfers. Most of the City's inter-fund transfers are considered nonreciprocal inter-fund 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 inter-fund 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 | \$1,439,791 |
| | Transportation CIP Fund #307 | 0 | 2,000,000 | 0 | 0 | 0 | \$2,000,000 |
| | Surface Water Utility Fund #403 | 0 | 0 | 0 | 0 | 7,989 | \$7,989 |
| | Other Non-Major Funds | 0 | 0 | 148,567 | 0 | 201,125 | \$349,692 |
| | Total Cash Transfers | \$0 | \$2,395,050 | \$264,390 | \$115,823 | \$1,648,905 | \$4,424,168 |
| | Transfer in of capital assets: | | | | | | |
| | To Surface Water Utility Fund #403 from Transportation Capital Improvement Fund #307 | | | | | | \$0 |
| | To Equipment Rental Fund #501 from Surface Water Utility Fund #403 | | | | | | \$0 |
| | | | | | | Total Inter-fund Transfers | \$14,424,168 |

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. There were no inter-fund transfers of capital assets in 2016.

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

General Fund #001

The following inter-fund transfers were made into the General Fund in 2016:

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. Contingency Reserve Fund #103 – Consolidate to General Fund (\$778,849) no longer meets requirements of separate reserve contingency.
3. Building Management Fund #108 – Transfer of construction sales taxes to support City Hall maintenance (\$295,100).

4. Des Moines Creek Basin ILA Fund #111 - Reimbursement for treasury services provided by the City per Inter-local Agreement (\$2,000).
5. Surface Water Utility Fund #403 – Reimbursement of administrative costs and Maintenance Facility maintenance costs (\$115,823).
6. Equipment Rental Fund #501 – Reimbursement of administrative costs and Maintenance Facility maintenance costs (\$115,823).
7. Special Assessment Debt Fund #204 – Fiduciary guarantee funds no longer required returned (\$363,842) to General Fund.

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

Transportation CIP Fund #307

In 2016, one inter-fund transfer totaling \$2,000,000 was made into the Transportation CIP Fund as follows 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 \$7,989 as reimbursement for the City provided berm mowing costs at the Basin.

Non-Major Fund Transfers

Two non-major fund transfers in were made as follows: 1) Surface Water Utility Fund #403 transferred \$147,567 into the Des Moines Creek Basin Fund #111 for maintenance and operations (\$67,187) and to accumulate reserves (\$80,706) for future capital improvements, and 2) Building Management Fund #108 transferred \$101,125 to Municipal Capital Improvements Fund #301 for capital improvements at the Valley Ridge Teen Center and \$100,000 to Facility Repair and Replacement Fund #110 for repairs and maintenance at City Hall.

NOTE 16: RECEIVABLE AND PAYABLE BALANCES

A. Receivables

The receivable balances for the major funds at December 31, 2016 were as follows:

| Fund | Taxes | Customer Accounts (Net) ¹ & Contracts | Special Assessments/ Interest & Penalties | Due from Other Gov | Total |
|---|--------------------|--|---|--------------------|--------------------|
| Governmental Activities: | | | | | |
| General #001 ² | \$3,082,330 | \$1,050,830 | \$875 | \$165,627 | \$4,299,662 |
| Street #102 | 618,140 | 0 | 0 | 89,621 | 707,761 |
| Hotel/Motel Tax #107 | 199,539 | 0 | 0 | 0 | 199,539 |
| Transportation CIP #307 | 0 | 627,435 | 0 | 0 | 627,435 |
| Other Non-Major Funds | 280,277 | 0 | 0 | 0 | 280,277 |
| Total Governmental Activities | \$4,180,287 | \$1,678,265 | \$875 | \$255,248 | \$6,114,675 |
| 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 | \$160,000 | \$0 | \$62,569 | \$222,569 |
| Total Business-Type Activities | \$0 | \$160,000 | \$0 | \$62,569 | \$222,569 |

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, 2016 were as follows:

| Fund | Accounts | Due to Other Gov | Deposits & Custodial | Interest & Other | Total |
|--|--------------------|------------------|----------------------|------------------|--------------------|
| Governmental Activities: | | | | | |
| General #001 ¹ | \$875,683 | \$28 | \$256,873 | \$0 | \$1,132,584 |
| Street #102 | 115,257 | 0 | 48,665 | 0 | 163,922 |
| Hotel/Motel Tax #107 | 37 | 0 | 0 | 0 | 37 |
| Municipal Facilities CIP #306 | 0 | 0 | 0 | 0 | 0 |
| Transportation CIP #307 | 806,609 | 0 | 0 | 0 | 806,609 |
| Other Non-Major | 23,049 | 0 | 0 | 0 | 23,049 |
| Subtotal Governmental Activities | \$1,820,634 | \$28 | \$305,538 | \$0 | \$2,126,201 |
| Reconciliation of balances in fund financial statements to government-wide financial statements: | | | | | |
| Internal service fund adjustment | 23,333 | 0 | 0 | 0 | 38,493 |
| Total Governmental Activities | \$1,906,363 | \$0 | \$284,833 | \$3,933 | \$2,195,129 |
| Business-type Activities: | | | | | |
| Surface Water Utility #403 | \$63,604 | \$9,074 | \$0 | \$0 | \$72,678 |
| Total Business-type Activities | \$63,604 | \$9,074 | \$0 | \$0 | \$72,678 |

¹ Includes 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 Inter-local Agreement (the "Original Inter-local 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 "Inter-local Cooperation Act" (RCW 39.34). This "Original Inter-local 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 inter-local agreement is known as the "Formation Inter-local 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 its 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 Inter-local 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. The SCORE PDA issued \$86 million in special obligation bonds in 2009 (the "Bonds") to construct, develop, acquire and equip the SCORE Facility. Pursuant to the Formation Inter-local 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 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 | | Auburn | Burien | Federal Way | Renton | SeaTac | Tukwila |
| | | | Subsidy | Total | 31% | 4% | 18% | 36% | 3% | 8% |
| 2017 | \$ 2,145,000 | \$ 4,820,241 | \$ (1,510,874) | \$ 5,454,367 | \$ 1,690,854 | \$ 218,175 | \$ 981,786 | \$ 1,963,572 | \$ 163,631 | \$ 436,349 |
| 2018 | 2,240,000 | 4,715,979 | (1,510,063) | 5,445,916 | 1,688,234 | 217,837 | 980,265 | 1,960,530 | 163,377 | 435,673 |
| 2019 | 2,310,000 | 4,602,229 | (1,473,568) | 5,438,661 | 1,685,985 | 217,546 | 978,959 | 1,957,918 | 163,160 | 435,093 |
| 2020 | 2,385,000 | 4,484,854 | (1,435,933) | 5,433,921 | 1,684,516 | 217,357 | 978,106 | 1,956,212 | 163,018 | 434,714 |
| 2021 | 2,465,000 | 4,363,604 | (1,397,075) | 5,431,529 | 1,683,774 | 217,261 | 977,675 | 1,955,350 | 162,946 | 434,522 |
| 2022-2026 | 13,945,000 | 19,586,127 | (6,994,733) | 26,536,394 | 8,226,282 | 1,061,456 | 4,776,551 | 9,553,102 | 796,092 | 2,122,912 |
| 2027-2031 | 17,010,000 | 14,723,464 | (5,346,730) | 26,386,734 | 8,179,888 | 1,055,469 | 4,749,612 | 9,499,224 | 791,602 | 2,110,939 |
| 2032-2036 | 20,955,000 | 8,498,417 | (3,217,063) | 26,236,354 | 8,133,270 | 1,049,454 | 4,722,544 | 9,445,087 | 787,091 | 2,098,908 |
| 2037-2039 | 14,860,000 | 1,502,494 | (697,922) | 15,664,572 | 4,856,017 | 626,583 | 2,819,623 | 5,639,246 | 469,937 | 1,253,166 |
| Totals | \$ 78,315,000 | \$ 67,297,409 | \$ (23,583,961) | \$ 122,028,448 | \$ 37,828,820 | \$ 4,881,138 | \$ 21,965,121 | \$ 43,930,241 | \$ 3,660,854 | \$ 9,762,276 |

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, 2016 related to SCORE:

| South Correctional Entity (SCORE) | | | | |
|--|-------------------|----------------------|-----------------------|---------------------|
| Member City | Percent of Equity | 2015 Equity Balance | 2016 Apportionment | 2016 Equity Balance |
| Auburn | 31.00% | \$ 3,331,777 | \$ (216,443) | \$ 3,115,334 |
| Burien | 3.00% | 376,841 | (52,239) | 324,602 |
| Des Moines | 2.00% | 197,267 | (30,684) | 166,583 |
| Federal Way | 23.00% | 2,620,575 | (328,310) | 2,292,265 |
| Renton | 30.00% | 3,222,670 | (281,167) | 2,941,503 |
| SeaTac | 4.00% | 498,467 | (64,438) | 434,029 |
| Tukwila | 7.00% | 788,541 | (85,218) | 703,323 |
| Grand Totals | 100.00% | \$ 11,036,138 | \$ (1,058,499) | \$ 9,977,639 |

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 \$66,150 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) | \$153,648 |
| Interest on net OPEB obligation | 22,853 |
| Adjustment to annual required contribution | <u>(51,387)</u> |
| Annual OPEB cost (expense) | 125,114 |
| Contributions made | <u>(66,150)</u> |
| Increase in net OPEB obligation | 58,965 |
| Net OPEB Obligation – Beginning of Year | <u>571,337</u> |
| Net OPEB Obligation – End of Year | <u>\$630,302</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 2016 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 |
|--------------------------|-------------------------|---|------------------------|
| 2014 | \$148,065 | 41% | \$479,436 |
| 2015 | \$155,810 | 41% | \$571,338 |
| 2016 | \$125,114 | 53% | \$630,302 |

Funded status and funding progress: As of June 30, 2014, 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 \$1,708,319 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, 2014 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 2020) and decreasing to 6.3% in 2016. 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”)

In 2016 The City of SeaTac was 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 Inter-local 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 Inter-local Cooperation Act. The AWC 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 Inter-local 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, 2016, 258 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, dental and vision insurance through the following carriers: Group Health Cooperative/Group Health Options, Inc., Regence BlueShield, Asuris Northwest Health, Delta Dental of Washington, and Vision Service 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. In 2016, the AWC Trust HCP purchased 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 for 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 that 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 two appointed individuals from the AWC Board of Directors, who are from Trust member cities or towns. 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: OTHER DISCLOSURES

A. Special Items

The City originally purchased the "Hughes Property" in 1997 as an option for a "New City Hall or other City purposes". Resolution 15-009 passed in June of 2015 declaring the property surplus to the needs of the City and

authorizing the City Manager to execute a purchase and sale agreement.

As shown on the government-wide Statement of Activities, the City reported a gain on the sale of the Hughes Property in the amount of \$1,238,745. Additionally, the City reported this sale 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 \$4,035,189 as proceeds from the sale of land. This sale was reported as a special item due to the significance and infrequency of this type of transaction occurring.



**Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
For the Year Ended December 31, 2016**

| | 2015-2016 Biennial Budget Amounts | | Actual Amounts | Variance with |
|--|-----------------------------------|-------------------|-------------------|--------------------------------------|
| | Original | Final | | Final Budget- Positive (Negative) |
| Revenues | | | | |
| Taxes | \$ 58,940,000 | \$ 58,829,000 | \$ 61,920,343 | \$ 3,091,343 |
| Licenses & permits | 2,145,699 | 2,145,699 | 3,856,638 | 1,710,939 |
| Intergovernmental & contributions | 2,078,950 | 2,196,450 | 2,381,306 | 184,856 |
| Charges for services | 3,256,545 | 3,270,345 | 2,718,934 | (551,411) |
| Fines and forfeitures | 1,160,550 | 1,160,550 | 1,234,215 | 73,665 |
| Investment & other earnings | 79,000 | 79,000 | 149,283 | 70,283 |
| Rent & leases | 393,100 | 393,100 | 417,363 | 24,263 |
| Miscellaneous | 30,000 | 30,000 | 272,222 | 242,222 |
| Total Revenues | 68,083,844 | 68,104,144 | 72,950,304 | 4,846,160 |
| Expenditures | | | | |
| Current: | | | | |
| Judicial | 1,616,798 | 1,616,798 | 1,342,397 | 274,401 |
| General Government | 12,810,296 | 12,810,296 | 12,282,601 | 527,695 |
| Public Safety | 41,224,731 | 41,224,731 | 40,532,112 | 692,619 |
| Transportation | 1,173,418 | 1,173,418 | 1,759,148 | (585,730) |
| Health & Human Services | | | 1,575,099 | (1,575,099) |
| Physical & Economic Environment | 4,856,789 | 4,923,789 | 4,220,449 | 703,340 |
| Culture & Recreation | 8,302,147 | 8,419,647 | 6,473,918 | 1,945,729 |
| Debt Service: | | | | |
| Interest | - | - | - | - |
| Capital outlay | - | - | - | - |
| Total Expenditures | 69,984,179 | 70,168,679 | 68,185,724 | 1,982,955 |
| Excess (deficiency) of revenues over (under) expenditures | (1,900,335) | (2,064,535) | 4,764,580 | 6,829,115 |
| Other Financing Sources (Uses) | | | | |
| Transfers in | 3,687,592 | 4,521,632 | 3,064,323 | (1,457,309) |
| Disposal & ins-capital assets | 711,156 | 711,156 | 18,762 | 729,918 |
| Total Other Fin Sources (Uses) | 4,398,748 | 5,232,788 | 3,083,085 | (727,391) |
| Net Change in Fund Balances | 2,498,413 | 3,168,253 | 7,847,665 | 6,101,724 |
| Fund Balances-January 1, 2014 | 7,454,789 | 8,666,390 | 8,666,390 | - |
| Fund Balances-December 31, 2016 | \$ 9,953,202 | \$ 11,834,643 | \$ 16,514,055 | \$ 4,679,412 |

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

**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, 2016**

| | 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 | \$ 61,920,343 | \$ - | \$ - | \$ - |
| Licenses & permits | 3,856,638 | - | - | - |
| Intergovernmental | 2,381,306 | - | - | 316,156 |
| Charges for services | 2,718,934 | - | - | - |
| Fines & forfeitures | 1,234,215 | - | - | - |
| Investment & other earnings | 149,283 | 1,356 | 5,887 | 752 |
| Rent & leases | 417,363 | - | - | - |
| Miscellaneous | 272,222 | - | - | - |
| Total Revenues | 72,950,304 | 1,356 | 5,887 | 316,908 |
| Expenditures | | | | |
| Current: | | | | |
| Judicial | 1,342,397 | - | - | - |
| General Government | 12,282,601 | - | - | 221,364 |
| Public Safety | 40,532,112 | - | - | - |
| Transportation | 1,759,148 | - | - | - |
| Health & Human Services | 1,575,099 | - | - | - |
| Physical & Economic Env | 4,220,449 | - | - | - |
| Culture & Recreation | 6,473,918 | - | 18,179 | - |
| Debt service: | | | | |
| Interest | - | - | - | - |
| Capital outlay | - | - | - | - |
| Total Expenditures | 68,185,724 | - | 18,179 | 221,364 |
| Excess (deficiency) of revenues over (under) expenditures | 4,764,580 | 1,356 | (12,292) | 95,544 |
| Other Financing Sources (Uses) | | | | |
| Transfers in | 3,064,323 | - | - | - |
| Transfers out | - | (778,849) | - | - |
| Disposal & ins-capital assets | 18,762 | - | - | - |
| Total Other Fin Sources (Uses) | 3,083,085 | (778,849) | 0 | - |
| Net Change in Fund Balances | 7,847,665 | (777,493) | (12,292) | 95,544 |
| Fund Balances-Beginning* | 8,065,215 | 777,493 | 1,548,629 | 263,986 |
| Fund Balances-Ending | \$ 15,912,880 | \$ 0 | \$ 1,536,337 | \$ 359,530 |

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

| | Special Revenue Funds merged with General Fund as req by GASB Statement No. 54 | | | | General Fund GAAP Basis - Actual Amounts | Net Change - Increase (Decrease) |
|--|--|----------------------------------|---|---------------------------|--|--|
| | Building Management | Facility Repair & Replacement | Eliminate Transfers & Spec Item Adj | Eliminate 2015 Actuals | | |
| Revenues | | | | | | |
| Taxes | \$ - | \$ - | \$ - | \$ (30,843,136) | \$ 31,077,207 | \$ (30,843,136) |
| Licenses & permits | - | - | - | (1,612,257) | 2,244,381 | (1,612,257) |
| Intergovernmental | - | - | - | (1,287,072) | 1,410,390 | (970,916) |
| Charges for services | - | - | - | (1,290,638) | 1,428,296 | (1,290,638) |
| Fines & forfeitures | 652 | - | - | (615,774) | 619,093 | (615,122) |
| Investment & other earnings | 9,435 | 1,600 | - | (55,526) | 112,788 | (36,495) |
| Rent & leases | 1,074,390 | - | - | (193,851) | 1,297,902 | 880,539 |
| Miscellaneous | 286,119 | - | - | (142,566) | 415,775 | 143,553 |
| Total Revenues | 1,370,595 | 1,600 | - | (36,040,820) | 38,605,831 | (34,344,473) |
| Expenditures | | | | | | |
| Current: | | | | | | |
| Judicial | - | - | - | (670,565) | 671,832 | (670,565) |
| General Government | 563,869 | - | - | (6,408,415) | 6,659,420 | (5,623,181) |
| Public Safety | - | - | - | (19,522,276) | 21,009,836 | (19,522,276) |
| Transportation | - | 26,598 | - | (899,808) | 885,938 | (873,210) |
| Health & Human Services | - | - | - | (782,079) | 793,020 | (782,079) |
| Physical & Economic Env | - | - | - | (2,299,430) | 1,921,019 | (2,299,430) |
| Culture & Recreation | - | 16,798 | - | (3,428,378) | 3,080,517 | (3,393,401) |
| Debt service: | | | | | | |
| Interest | - | - | - | - | - | - |
| Capital outlay | 97,600 | 29,855 | - | - | 127,455 | 127,455 |
| Total Expenditures | 661,470 | 73,251 | - | (34,010,951) | 35,149,037 | (33,036,687) |
| Excess (deficiency) of revenues over (under) expenditures | 709,125 | (71,651) | - | (2,029,869) | 3,456,794 | (1,307,786) |
| Other Financing Sources (Uses) | | | | | | |
| Transfers in | - | - | (195,100) | (1,097,836) | 1,771,387 | (1,292,936) |
| Transfers out | (101,125) | - | - | - | (879,974) | (879,974) |
| Disposal & ins-capital assets | - | - | - | (18,762) | - | (18,762) |
| Total Other Fin Sources (Uses) | (101,125) | - | (195,100) | (1,116,598) | 891,413 | (2,191,672) |
| Net Change in Fund Balances | 608,000 | (71,651) | (195,100) | (3,146,467) | 4,348,207 | (3,499,458) |
| Fund Balances-Beginning | 2,475,463 | 380,821 | - | (13,426,273) | 17,963,022 | 2,919,550 |
| Fund Balances-Ending | <u>\$ 3,083,463</u> | <u>\$ 309,170</u> | <u>\$ (195,100)</u> | <u>N/A</u> | <u>\$ 22,311,229</u> | <u>\$ 6,398,349</u> |

**Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
For the Year Ended December 31, 2016**

| | 2015-2016 Biennial Budget Amounts | | Amounts* | Variance with |
|--|-----------------------------------|---------------------|----------------------|--------------------------------------|
| | Original | Final | | Final Budget- Positive (Negative) |
| Revenues | | | | |
| Taxes | \$ 14,135,806 | \$ 14,135,806 | \$ 14,252,952 | \$ 117,146 |
| Intergovernmental | 1,193,136 | 1,193,136 | 1,282,412 | 89,276 |
| Charges for services | 12,000 | 12,000 | 30,492 | 18,492 |
| Investment & other earnings | - | - | 47,499 | 47,499 |
| Rents & leases | 13,800 | 13,800 | 13,800 | - |
| Miscellaneous | 40,000 | 40,000 | 15,513 | (24,487) |
| Total Revenues | 15,394,742 | 15,394,742 | 15,642,668 | 247,926 |
| Expenditures | | | | |
| Current: | | | | |
| Transportation | 5,678,600 | 5,678,600 | 3,747,929 | 1,930,671 |
| Physical & Economic Environment | 52,000 | 52,000 | 142,508 | (90,508) |
| Capital Outlay: | | - | | |
| Transportation | 1,895,688 | 1,895,688 | 1,545,654 | 350,034 |
| Total Expenditures | 7,626,288 | 7,626,288 | 5,436,091 | 2,190,197 |
| Excess (deficiency) of revenues over (under) expenditures | 7,768,454 | 7,768,454 | 10,206,577 | 2,438,123 |
| Other Financing Sources (Uses) | | | | |
| Transfers out | (7,790,100) | (7,790,100) | (7,790,100) | - |
| Disposal & ins-capital assets | - | - | 279 | 279 |
| Total Other Fin Sources (Uses) | (7,790,100) | (7,790,100) | (7,789,821) | 279 |
| Net Change in Fund Balances | (21,646) | (21,646) | 2,416,756 | 2,438,402 |
| Fund Balances-January 1, 2015 | 8,546,781 | 8,546,781 | 8,667,710 | - |
| Fund Balances-December 31, 2016 | <u>\$ 8,525,135</u> | <u>\$ 8,525,135</u> | <u>\$ 11,084,466</u> | <u>\$ 2,559,331</u> |

*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, 2016**

| | 2015-2016 Biennial Budget Amounts | | Actual Amounts* | Variance with Final Budget- Positive (Negative) |
|--|-----------------------------------|---------------------|---------------------|---|
| | Original | Final | | |
| Revenues | | | | |
| Taxes | \$ 2,014,422 | \$ 2,014,422 | \$ 2,676,070 | \$ 661,648 |
| Intergovernmental | - | - | 26,998 | 26,998 |
| Investment & other earnings | 8,000 | 8,000 | 37,259 | 29,259 |
| Miscellaneous | - | - | 18,610 | 18,610 |
| Total Revenues | <u>2,022,422</u> | <u>2,022,422</u> | <u>2,758,936</u> | <u>736,514</u> |
| Expenditures | | | | |
| Current: | | | | |
| Economic Environment | <u>2,670,003</u> | <u>2,670,003</u> | <u>2,332,136</u> | <u>337,868</u> |
| Total Expenditures | <u>2,670,003</u> | <u>2,670,003</u> | <u>2,332,136</u> | <u>337,868</u> |
| Excess (deficiency) of revenues over (under) expenditures | (647,581) | (647,581) | 426,801 | 1,074,382 |
| Other Financing Sources (Uses) | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total Other Fin Sources (Uses) | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Net Change in Fund Balances | (647,581) | (647,581) | 426,801 | 1,074,382 |
| Fund Balances-January 1, 2015 | <u>6,896,335</u> | <u>6,896,335</u> | <u>7,134,053</u> | <u>-</u> |
| Fund Balances-December 31, 2016 | <u>\$ 6,248,754</u> | <u>\$ 6,248,754</u> | <u>\$ 7,560,854</u> | <u>\$ 1,312,100</u> |

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

**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% |
| 7/1/2015 | \$0 | \$1,998,572 | \$1,998,572 | 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 Proportionate Share of the Net Pension Liability
PERS 1
As of December 31, 2016
Last 10 Fiscal Years*

| | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 |
|--|--------------|--------------|------|------|------|------|------|------|------|------|
| <u>Employer's proportion of the net pension liability (asset)</u> | 0.080985% | 7.540800% | | | | | | | | |
| <u>Employer's proportionate share of the net pension liability (asset)</u> | \$ 4,236,269 | \$ 4,049,765 | | | | | | | | |
| TOTAL | \$ 4,236,269 | \$ 4,049,765 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| <u>Employer's covered employee payroll</u> | \$ 60,701 | \$ 64,543 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| <u>Employer's proportionate share of the net pension liability as a percentage of covered employee payroll</u> | 6978.91% | 6274.52% | | | | | | | | |
| <u>Plan fiduciary net position as a percentage of the total pension liability</u> | 59.10% | 57.03% | | | | | | | | |

Notes to Schedule:

* Until a full 10-year trend is compiled, the City will present information only for those years for which information is available.

Schedule of Proportionate Share of the Net Pension Liability
PERS 2/3
As of December 31, 2016
Last 10 Fiscal Years*

| | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 |
|--|--------------|--------------|------|------|------|------|------|------|------|------|
| <u>Employer's proportion of the net pension liability (asset)</u> | 0.102779% | 0.095030% | | | | | | | | |
| <u>Employer's proportionate share of the net pension liability (asset)</u> | \$ 3,672,352 | \$ 4,784,685 | | | | | | | | |
| TOTAL | \$ 3,672,352 | \$ 4,784,685 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| <u>Employer's covered employee payroll</u> | \$ 9,120,015 | \$ 8,861,046 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| <u>Employer's proportionate share of the net pension liability as a percentage of covered employee payroll</u> | 40.27% | 54.00% | | | | | | | | |
| <u>Plan fiduciary net position as a percentage of the total pension liability</u> | 89.20% | 85.82% | | | | | | | | |

Notes to Schedule:

* Until a full 10-year trend is compiled, the City will present information only for those years for which information is available.

Schedule of Proportionate Share of the Net Pension Liability
LEOFF 1
As of December 31, 2016
Last 10 Fiscal Years*

| | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 |
|--|-------------|-------------|------|------|------|------|------|------|------|------|
| <u>Employer's proportion of the net pension liability (asset)</u> | 0.006607% | 0.006678% | | | | | | | | |
| <u>Employer's proportionate share of the net pension liability</u> | \$ (79,629) | \$ (68,802) | | | | | | | | |
| TOTAL | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| <u>Employer's covered employee payroll</u> | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| <u>Employer's proportionate share of the net pension liability as a percentage of covered employee payroll</u> | 0.00% | 0.00% | | | | | | | | |
| <u>Plan fiduciary net position as a percentage of the total pension liability</u> | 127.36% | 123.74% | | | | | | | | |

Notes to Schedule:

* Until a full 10-year trend is compiled, the City will present information only for those years for which information is available.

**Schedule of Employer Contributions
PERS 1
As of December 31, 2015
Last 10 Fiscal Years***

| | <u>2015</u> | <u>2016</u> | <u>2017</u> | <u>2018</u> | <u>2019</u> | <u>2020</u> | <u>2021</u> | <u>2022</u> | <u>2023</u> | <u>2024</u> |
|---|--------------|--------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| <u>Statutorily or contractually required contributions</u> | \$ 420,763 | \$ 407,177 | | | | | | | | |
| <u>Contributions in relation to the statutorily or contractually required contributions</u> | \$ (420,763) | \$ (407,177) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| <u>Contribution deficiency (excess)</u> | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| <u>Covered employer payroll</u> | \$ 63,960 | \$ 65,179 | | | | | | | | |
| <u>Contributions as a percentage of covered employee payroll</u> | 657.85% | 624.71% | | | | | | | | |

Notes to Schedule:

* Until a full 10-year trend is compiled, the City will present information only for those years for which information is available.

Schedule of Employer Contributions
PERS 2/3
As of December 31, 2015
Last 10 Fiscal Years*

| | <u>2015</u> | <u>2016</u> | <u>2017</u> | <u>2018</u> | <u>2019</u> | <u>2020</u> | <u>2021</u> | <u>2022</u> | <u>2023</u> | <u>2024</u> |
|---|--------------|--------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| <u>Statutorily or contractually required contributions</u> | \$ 531,326 | \$ 622,456 | | | | | | | | |
| <u>Contributions in relation to the statutorily or contractually required contributions</u> | \$ (531,326) | \$ (622,456) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| <u>Contribution deficiency (excess)</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| <u>Covered employer payroll</u> | \$ 9,104,496 | \$ 8,385,928 | | | | | | | | |
| <u>Contributions as a percentage of covered employee payroll</u> | 5.84% | 7.42% | | | | | | | | |

Notes to Schedule:

* Until a full 10-year trend is compiled, the City will present information only for those years for which information is available.

Schedule of Employer Contributions
LEOFF 1
As of December 31, 2015
Last 10 Fiscal Years*

| | <u>2015</u> | <u>2016</u> | <u>2017</u> | <u>2018</u> | <u>2019</u> | <u>2020</u> | <u>2021</u> | <u>2022</u> | <u>2023</u> | <u>2024</u> |
|---|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| <u>Statutorily or contractually required contributions</u> | \$ - | \$ - | | | | | | | | |
| <u>Contributions in relation to the statutorily or contractually required contributions</u> | \$ - | \$ - | | | | | | | | |
| <u>Contribution deficiency (excess)</u> | \$ - | \$ - | | | | | | | | |
| <u>Covered employer payroll</u> | \$ - | \$ - | | | | | | | | |
| <u>Contributions as a percentage of covered employee payroll</u> | 0.00% | 0.00% | | | | | | | | |

Notes to Schedule:

** Until a full 10-year trend is compiled, the City will present information only for those years for which information is available.*

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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

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