



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

City of SeaTac

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

Published December 27, 2018

Report No. 1022977





**Office of the Washington State Auditor
Pat McCarthy**

December 27, 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 cursive script that reads "Pat McCarthy".

Pat McCarthy
State Auditor
Olympia, WA

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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

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

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

Audit Period: January 1, 2016 through December 31, 2016	Report Ref. No.: 1020973	Finding Ref. No.: 2016-001
Finding Caption: The City's internal controls were not adequate to ensure all major funds were accurately reported on the financial statements, federal awards were accurately identified and managerial fund transfers were properly eliminated.		
Background: Finance department turnover significantly limited the available resources of key financial statement preparation positions, and adequate resources were not dedicated to internal controls over financial statement preparation and review. In 2016, we identified the following deficiencies in internal controls over financial reporting which represented a material weakness over financial reporting: <ul style="list-style-type: none"> • 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. 		
Status of Corrective Action: (check one) <input checked="" type="checkbox"/> Fully Corrected <input type="checkbox"/> Partially Corrected <input type="checkbox"/> Not Corrected <input type="checkbox"/> Finding is considered no longer valid		
Corrective Action Taken: <i>The 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 hired additional staff in late 2017. This additional staff will strengthen the internal control over the preparation and review of the financial statements.</i>		

Mayor
Erin Sitterley

Deputy Mayor
Clyde Hill

Councilmembers
Rick Forschler
Joel Wachtel
Peter Kwon
Amina Ahmed
Pam Fernald

City Manager
Joseph Scorcio

City Attorney
Mary Mirante Bartolo

City Clerk
Kristina Gregg

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

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, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 7, 2018.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

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



Pat McCarthy

State Auditor

Olympia, WA

December 7, 2018

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

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

City Council
City of SeaTac
SeaTac, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying 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, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed on page 10.

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 discretely presented component unit, each major fund and the aggregate remaining fund information of the City of SeaTac, as of December 31, 2017, 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 10 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 December 7, 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

December 7, 2018

FINANCIAL SECTION

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

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2017

BASIC FINANCIAL STATEMENTS

Statement of Net Position – Government Wide – 2017

Statement of Activities – Government Wide – 2017

Balance Sheet – Governmental Funds – 2017

Reconciliation of Fund Balances of Governmental Funds to the Net Position of
Governmental Activities – 2017

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

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

Statement of Net Position – Proprietary Funds – 2017

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

Statement of Cash Flows – Proprietary Funds – 2017

Notes to the Financial Statements – 2017

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual
– General Fund – 2017

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 – 2017

Schedules of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual
– Street Fund – 2017

Schedules of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual
– Hotel/Motel Tax Fund – 2017

Schedule of Funding Progress for LEOFF 1 Retiree Medical Benefits – 2017

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

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

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, 2017. Since the MD&A was designed to focus on the activities, resulting changes, and currently known facts for the year 2017, 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, 2017, total net position for the City was \$508 million. Of this amount, \$438.2 million or 86% 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 \$32.6 million or 6.4% 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 \$37.3 million or 7% was classified as unrestricted and available for general City operations.
- Governmental funds ended the year with \$66 million in total ending fund balance on the modified accrual basis of accounting. This is an increase of \$9.7 million or 7.3% over 2016, which ended the year with a \$61.5 million ending fund balance. The targeted reductions program implemented mid-2016 in an effort to lessen the impact of an estimated revenue short fall continues to produce a favorable 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 \$5.9 million in Governmental Activities and \$253,975 for Business-type Activities, a decrease from 2016 of 31% and 25% respectively.
- The Connecting 28th/24th Avenue South project completed a new principal arterial road corridor between South 188th Street in SeaTac and South 216th Street in Des Moines that will help relieve congestion on International Boulevard (SR 99). The new road also provides access from the south to both Sea-Tac International Airport, the Angle Lake Light Rail Station. In addition, the new road provides access to businesses in the Des Moines Creek Business Park along 24th Ave South. The project was awarded "Project of The Year" by the Washington Chapter of the American Public Works Association (APWA) and represents the highest honor possible in the category of Transportation - \$5 Million, but less than \$25 Million. Over the next 20 years, this corridor will help support development resulting in approximately 15,500 jobs and a projected total direct economic impact of \$32.6 million for the City of SeaTac.

- The City created a new Solid Waste and Environmental Services Enterprise Fund to account for franchise fees paid for solid waste services and grants related to solid waste and recycling. All expenses related to the administration of the City’s recycling and education program are paid for out of this fund.

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 has two business-type activities; a surface water utility funded through surface water management fees and the solid waste and environmental fund paid for from franchise 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 2017, the City of SeaTac maintained seventeen individual governmental funds on a budgetary basis. On a GAAP basis, the City maintained fourteen 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 Municipal Capital Improvement 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 2017, 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 enterprise funds of the City are a surface water utility used for operations, construction and debt related expenses, and a solid waste and environmental fund used for education and improvements related to the environment.

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	
Assets:	2017	2016	2017	2016	2017	2016
Current & other assets	\$ 75,549,050	\$ 65,733,345	\$ 7,011,294	\$ 6,135,357	\$ 82,560,344	\$ 71,868,702
Net pension asset	102,761	68,802	-	-	102,761	68,802
Capital assets, net	413,571,822	414,789,025	24,726,034	25,167,813	438,297,856	439,956,838
Total Assets	489,223,633	480,591,172	31,737,328	31,303,170	520,960,961	511,894,342
Deferred Outflows	847,568	1,369,921	57,883	80,953	905,451	1,450,874
Liabilities:						
Long-term liabilities	3,693,832	4,004,240	57,378	32,835	3,751,210	4,037,075
Net pension liability	5,920,006	8,495,811	253,975	338,639	6,173,981	8,834,450
Other liabilities	1,952,317	2,652,631	124,408	74,407	2,076,725	2,727,038
Total liabilities	11,566,155	15,152,682	435,761	445,881	12,001,916	15,598,563
Deferred Inflows	1,459,925	430,246	119,812	32,770	1,579,737	463,016
Net Position:						
Net inv in capital assets	413,571,822	414,789,025	24,726,035	25,167,813	438,297,857	439,956,838
Restricted	32,663,251	27,925,280	-	-	32,663,251	27,925,280
Unrestricted	30,810,047	23,663,861	6,513,604	5,737,659	37,323,651	29,401,520
Total Net Position	\$ 477,045,120	\$ 466,378,166	\$ 31,239,639	\$ 30,905,472	\$ 508,284,759	\$ 497,283,638

In 2017, the City’s total net position increased by \$11 million. In addition, net investment in capital decreased by \$1.7 million due to the demolition and removal of the old Fire Station #45. The City spent approximately \$5.3 million on capital assets in 2017 with the bulk of the expenses going toward transportation improvements. The City’s total restricted net position increased by \$4.7 million and unrestricted net position increased by \$7.9 million.

The City’s net position for governmental activities includes \$32.6 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 \$30.8 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 \$6.5 million. \$6.4 million can be used for general surface water utility purposes including capital projects, if desired and \$128,319 is available for Solid Waste and Environmental purposes.

Changes in Net Position

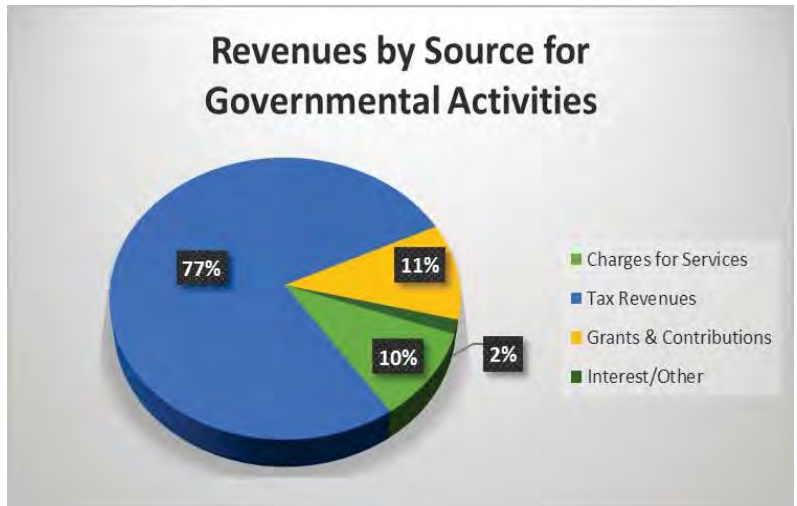
Changes in net position as shown on the government-wide Statement of Activities, shows the net change or the difference between the total revenue activity and the total expense activity that took place during the current reporting period. The change in net position figure is added to the beginning net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

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

City of SeaTac's Changes in Net Position

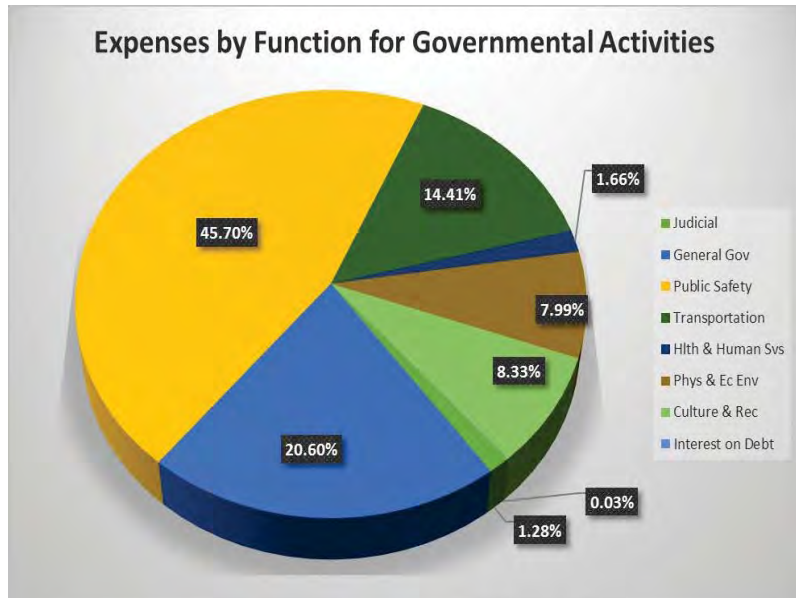
	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Revenues:						
Program Revenues:						
Charges for services	\$ 6,063,305	\$ 6,632,937	\$ 3,196,839	\$ 2,703,563	\$ 9,260,144	\$ 9,336,500
Operating grants & contrib	2,126,882	2,377,423	142,135	25,000	2,269,017	2,402,423
Capital grants & contrib	4,522,064	8,472,851	-	-	4,522,064	8,472,851
General Revenues:						
Property taxes	15,479,941	14,649,534	-	-	15,479,941	14,649,534
Sales taxes	15,420,148	13,296,670	-	-	15,420,148	13,296,670
Hotel/motel taxes	1,800,033	1,701,016	-	-	1,800,033	1,701,016
Parking taxes	9,324,537	7,234,583	-	-	9,324,537	7,234,583
Gambling taxes	582,399	652,662	-	-	582,399	652,662
Excise taxes	3,812,350	3,618,247	-	-	3,812,350	3,618,247
Utility taxes	-	716,519	-	-	-	716,519
Investment interest	310,883	160,404	54,153	19,405	365,036	179,809
Unrestrict grants& contrib	-	-	-	-	-	-
Gains on asset sales	691,521	66,463	-	-	691,521	66,463
Total Revenues	60,134,063	59,579,309	3,393,127	2,747,968	63,527,190	62,327,277
Expenses:						
Judicial	640,249	674,843	-	-	640,249	674,843
General Government	10,278,105	6,665,255	-	-	10,278,105	6,665,255
Public Safety	22,797,465	21,356,732	-	-	22,797,465	21,356,732
Transportation	7,188,240	6,624,420	-	-	7,188,240	6,624,420
Health & Human Services	830,219	793,816	-	-	830,219	793,816
Physical & Economic Environment	3,984,274	4,067,123	2,524,785	2,045,045	6,509,059	6,112,168
Culture & Recreation	4,153,513	3,898,783	-	-	4,153,513	3,898,783
Interest on long-term debt	14,916	27,116	-	-	14,916	27,116
Total Expenses	49,886,982	44,108,089	2,524,785	2,045,045	52,411,767	46,153,134
Inc (Dec) in Net Position Before						
Transfers & Special Items	10,247,081	15,471,220	868,342	702,923	11,115,423	16,174,143
Transfers	419,873	256,401	(482,503)	(256,401)	(62,630)	-
Special Items:						
Gain on sale of Hughes Property	-	1,238,745	-	-	-	1,238,745
Total Special Items	-	1,238,745	-	-	-	1,238,745
Inc (Dec) in Net Position	10,666,954	16,966,366	385,339	446,522	11,052,793	17,412,888
Prior Year Adjustments	-	-	(56,946)	-	(56,946)	-
Net Position-Beg (as restated)	466,378,166	449,411,800	30,905,472	30,458,950	497,283,638	479,870,750
Net Position-Ending	\$ 477,045,120	\$ 466,378,166	\$ 31,234,365	\$ 30,905,472	\$ 508,279,485	\$ 497,283,638

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 \$6.6 million in grant revenues for capital purposes. Capital grants are down \$3.9 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 decreased by \$133 thousand over 2016.



In 2017, tax revenues continue to rise for most tax categories ranging from a 5.4% increase in excise taxes to a 16% increase in sales taxes. Positive economic activity continues in the travel and tourism industry and helped to create positive results for hotel/motel taxes, which rose 5.8% and parking taxes, which coupled with the increase of the short-term rate saw a 29% increase. The Port of Seattle’s “2017 Airport Activity Highlights” reported that aircraft operations increased 1% over 2016, along with passenger levels which increased 2.6%. Additionally, the Port of Seattle reported that air cargo increased by 16.2% from 2016 levels. The Port of Seattle’s SeaTac Airport is the ninth busiest airport in the nation, the 15th busiest in U.S. commercial services and is the 19th busiest airport in the nation by cargo volume. 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 \$5.7 million or 13.1% from 2016. Five out of the eight program areas in governmental activities had expense increases in 2017 ranging from 4.6% in Health & Human Services to 54.2% in General Government; three programs saw decreased expenses in 2017 ranging from 45% (interest on long-term debt) to a 2% decrease in the spending for the physical and economic environment.



General Government related expenses increased 54.2% because of a \$4.25 million legal settlement in October 2017. Removing the settlement payment from the general government program results in a decrease of general government spending of 9.6%.

Public Safety expenses experienced an increase of \$1.4 million or 7% over 2016. This is due solely to an increase in Police, Fire, Jail, and Animal Control contracts.

Business-type Activities: Net position increased by \$334 thousand in 2017 as compared to a \$447 thousand increase in 2016. The creation of the Solid Waste Fund required a direct decrease in net position to account for the beginning net pension liability. However, overall net position rose due to an increase in surface water utility rates, operating grants received and investment interest.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As previously discussed, the City of SeaTac uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The following analysis is provided for select governmental funds including the General Fund and the five other major funds as listed below. The City's Surface Water Utility fund and Solid Waste and Environmental 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 2017, the City's combined ending governmental fund balance was \$66 million versus the 2016 ending fund balance of \$58.3 million. Included in the 2017 ending fund balance is \$1.0 million in non-spendable prepayments, \$32.8 million in restricted fund balances (i.e. transportation, tourism, capital projects, etc.) and \$8.8 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 2016 and 2017, property taxes recorded into the General Fund equaled approximately \$14.6 million and \$15.4 million, respectively. The property tax levy continues to increase as result of new development, a promising indicator of an increasing property tax base.

In 2017, sales taxes recorded into the General Fund were \$15.4 million compared to \$13.2 million in 2016. 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 2017 was \$24.4 million, which is \$2.1 million increase over 2016. 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 four funds differently in the financial statements (GAAP basis) than in the City's budget (budgetary basis). The four funds and their respective fund balance additions to the General Fund are as follows: Port of Seattle ILA Fund - \$1.4 million, Transit Planning - \$362 thousand, Building Management Fund - \$3.3 million, and Facility Repair & Replacement - \$153 thousand for a total of \$5.3 million. A schedule for General Fund budget versus actual revenues and expenditures can be found in the Required Supplementary Information section of the Annual Report.

The City’s second major fund, the Street Fund, was originally added as a major fund in 2007 due to parking tax revenues. Parking taxes are an important funding source for capital infrastructure projects and are transferred into the Transportation CIP Fund as necessary. The Street Fund ended the year with \$15.5 million in fund balance, which is an increase of approximately \$4.5 million from 2016. 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 and an increase to the short-term parking tax.

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 2017 for this Fund was \$8 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 2017 brought in a record amount of lodging tax revenue at \$1.8 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 \$4.7 million in 2017. 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 Capital Improvement Fund is a capital projects fund whose purpose is to account for the expenditures related to general capital improvements including network information systems project, parks projects, and major building maintenance including parking lot repaving and HVAC upgrades. In 2017, the revenue source for this Fund was real estate excise tax and sales tax from Port of Seattle projects. At the end of 2017, the fund balance in the Municipal Capital Improvement Fund was \$8.4 million.

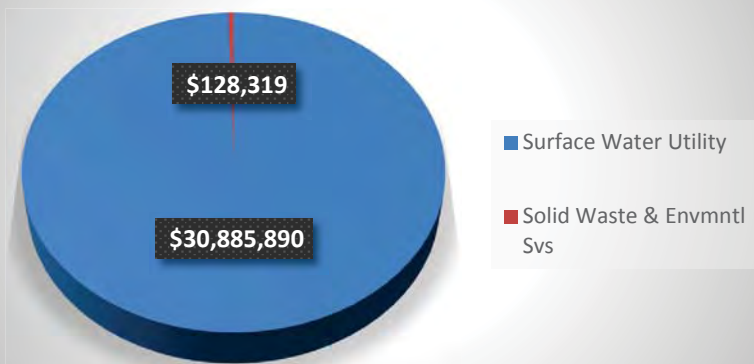
The Municipal Facilities Capital Improvement Fund is a capital projects fund whose purpose is to account for the expenditures related to major municipal capital projects including the purchase of land and the construction or major renovation of buildings. Although this Fund did not meet the GASB Statement 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 2017, the revenue source for this Fund was investment earnings. At the end of 2017, the fund balance in the Municipal Facilities Capital Improvement Fund was \$867 thousand.

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 2017, the major revenue source for this Fund was the remaining \$1.1 million from the U.S Department of Transportation Federal Highway Administration Grant (originally \$4.5 million) for the Connecting 28th/24th Ave. project. The Street Fund transferred \$2.2 million into this Fund to pay for two projects, including a sidewalk project and a roadway project.

Business-Type Funds

- The City has two business-type funds, a Surface Water Utility Fund and Solid Waste & Environmental Services Fund. These funds are proprietary funds 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. The Solid Waste and Environmental Services Fund accounts for franchise fees paid for solid waste services and grants related to solid waste and recycling. All expenses related to the administration of the City’s recycling and education program are paid for out of this fund.

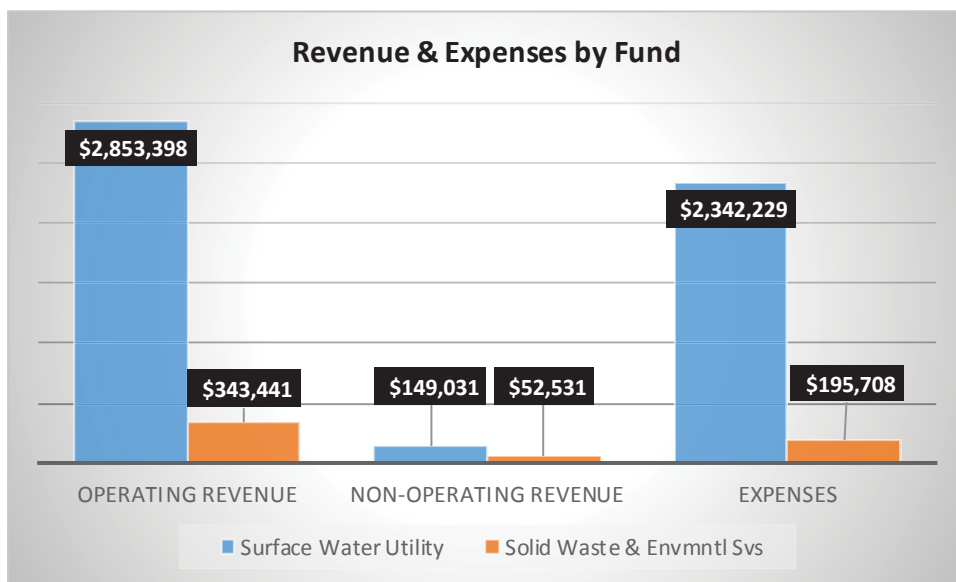
Business-Type Net Position by Fund



On the government-wide Statement of Net Position for business-type activities, the ending net position balance for proprietary funds was \$31.2 million and of this amount, \$6.5 million or 20.8% was unrestricted. The other \$24.7 million or 79.1% was classified as investment in capital assets. The chart on the left shows the Ending Fund Balance for the Surface Water Utility and Solid Waste & Environmental fund for 2017.

Revenues and Expenses for each fund are depicted in the chart below:

Revenue & Expenses by Fund



GENERAL FUND BUDGETARY HIGHLIGHTS

On a budgetary basis, the General Fund finished 2017 with \$19.3 million in ending fund balance reserves. The original ending fund balance amount budgeted for 2017 was \$16.2 million. The actual ending fund balance exceeded the original budget by \$3.1 million or 19%. Actual revenues (excluding transfers in) for the biennium were \$39 million or \$2.6 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 \$.6 million and sales tax collected was \$2.8 million over budget.

The General Fund's actual expenditures (excluding transfers out) were \$38.5 million for 2017. The original 2017 appropriation was \$36.1 million while the final budget was \$40.4 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 2017, the City had \$413.5 million (net of accumulated depreciation) in governmental activities capital assets, including one internal service fund, and \$24.7 million (net) in business-type activities. Total internal service fund capital assets (net) were just over \$1.8 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 2017:

Capital Assets:	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Land	\$ 321,450,239	\$ 321,612,036	\$ -	\$ -	\$ 321,450,239	\$ 321,612,036
Intangible Assets-Easements	127,978	127,978	35,442	35,442	163,420	163,420
Constr in Progress (CIP)	20,001,547	15,566,674	218,535	-	20,220,082	15,566,674
Buildings/Building Impr	46,647,358	48,425,161	228,560	228,560	46,875,918	48,653,721
Other Improvements	13,478,725	12,628,650	32,911,167	32,911,167	46,389,892	45,539,817
Infrastructure	98,458,034	98,458,034	-	-	98,458,034	98,458,034
Equipment/Vehicles	2,122,176	2,150,690	12,918	12,918	2,135,095	2,163,608
Equipment/Vehicles-Eq Rental	3,963,193	3,838,362	-	-	3,963,193	3,838,362
Intangible Assets-Software	615,452	635,474	156,634	156,634	772,086	792,108
Less: Depreciation	(93,292,882)	(88,654,033)	(8,837,221)	(8,176,908)	(102,130,103)	(96,830,941)
Total Capital Assets (Net)	\$ 413,571,819	\$ 414,789,026	\$ 24,726,035	\$ 25,167,813	\$ 438,297,854	\$ 439,956,839

In 2017, the largest change in capital assets occurred in Buildings/Building Improvements and Construction in Progress for governmental activities. The City declared the old Fire Station #45 as surplus and demolished the building thereby reducing the balance. Progress on the Connecting 28th/24th Avenue South project causing the Construction in Progress balance to increase. The project 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 2017, 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 2016 and 2017 by type:

City of SeaTac's
Outstanding Debt by Type

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
General Obligation Bonds	\$ 330,000	\$ 650,000	\$ -	\$ -	\$ 330,000	\$ 650,000
Special Obligation Bonds	2,285,100	2,349,450	-	-	2,285,100	2,349,450
Total	\$ 2,615,100	\$ 2,999,450	\$ -	\$ -	\$ 2,615,100	\$ 2,999,450

General Obligation Debt

According to Washington State law, the City's debt capacity for general government purposes is limited to 4% or \$216.2 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 \$81 million. At the end of 2017, the City's assessed valuation was \$5,405,585,665, which is a 10% increase from 2016. The 2017 assessed valuation is used to calculate taxes to be collected in 2018. The City had \$2.2 million in outstanding councilmanic (non-voted) general obligation debt including the special obligation bonds issued by SCORE (South Correctional Entity) at the end of 2017. 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 \$484.2 million of the City's assessed valuation.

Revenue Debt

At the end of 2017, 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 2017, 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 is found in Note 10 Long-Term Debt in the 2017 Notes to the Financial Statements.

ECONOMIC FACTORS AND THE 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. The economy continues to improve; 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. Building permit applications have increase 24% since 2010 and License and permit fees increased 31% over 2016.

Property Taxes are 41% of governmental revenues. Property tax revenue increased 5.7% from 2016 as property values continue to rise. Real estate excise tax has risen to pre-recession numbers and sales taxes are at an all-time high. For the 2017-2018 biennium, the General Fund estimated ending fund balance was \$16.2 million. Of that amount, \$12.3 million was identified as the Council’s General Fund target fund balance of four months of operating expenditures. The City ended the first year of the biennium with an ending fund balance of \$19.3 million. The growth in revenue substantiates City has rebounded from the Great Recession and has exceeded the General Fund target fund balance the last four years.

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, 2017

	Governmental Activities	Business-type Activities	Total	SSRTA Comp Unit
Assets				
Cash & cash equivalents	\$ 52,519,778	\$ 6,524,398	\$ 59,044,176	\$ 2,805,744
Investments	9,909,644	-	9,909,644	-
Receivables (net)				
Taxes	4,746,504	-	4,746,504	-
Customer accounts & contracts	4,144,211	165,947	4,310,158	11,792
Interest	1,813	-	1,813	-
Due from other governments	347,645	82,699	430,344	735,715
Inventory	-	-	-	1,757
Internal balances	(225,430)	225,430	-	-
Prepaid items	1,060,859	12,821	1,073,679	101,132
Investment in joint venture	3,044,026	-	3,044,026	-
Capital assets not being depreciated:				
Land	321,450,238	-	321,450,238	-
Intangible assets - Easements	127,978	35,442	163,420	-
Intangible assets - Trademarks	-	-	-	9,947
Construction in progress	20,001,547	218,535	20,220,081	-
Capital assets, net of accum deprec (Note 6):				
Buildings	26,752,637	161,765	26,914,402	-
Improvements other than buildings	5,946,510	24,265,062	30,211,572	-
Equipment, vehicles & software	2,356,138	45,230	2,401,368	250,894
Infrastructure	36,936,774	-	36,936,774	-
Net Pension Asset	102,761	-	102,761	-
Total Assets	\$ 489,223,632	\$ 31,737,329	\$ 520,960,961	\$ 3,916,981
Deferred Outflows of Resources				
Deferred Outflow of Resources - Pensior	847,568	57,883	905,451	437,615
Total Assets & Deferred Outflows	490,071,200	31,795,212	521,866,412	4,354,596
Liabilities				
Accounts payable & accrued expenses	1,139,545	112,314	1,251,859	207,507
Due to other governments	(51)	9,074	9,023	-
Custodial accounts & other current liab	302,864	-	302,864	-
Unearned revenue	61,780	-	61,780	-
Noncurrent liabilities (Note 10):				
Due within one year	448,179	3,020	451,199	38,798
Due in more than one year	3,693,832	57,378	3,751,210	847,399
Net Pension Obligation	5,920,006	253,975	6,173,981	-
Total Liabilities	\$ 11,566,155	\$ 435,761	\$ 12,001,916	\$ 1,093,704
Deferred Inflows of Resources				
Deferred Inflow of Resources - Pensions	1,482,684	98,222	1,580,906	129,728
Total Liabilities & Deferred Inflows	13,048,839	533,983	13,582,822	1,223,432
Net Position				
Investment in capital assets	413,571,822	24,726,035	438,297,857	260,841
Restricted for:				
Tourism promotion & facilities	7,714,294	-	7,714,294	-
Debt service	386,205	-	386,205	-
Capital projects & equipment	2,469,557	-	2,469,557	-
Transportation	19,039,976	-	19,039,976	-
Des Moines Creek Basin ILA projects	2,950,457	-	2,950,457	-
Net Pension Asset	102,761	-	102,761	-
Unrestricted	30,787,288	6,535,194	37,322,482	2,870,323
Total Net Position	\$ 477,022,361	\$ 31,261,229	\$ 508,283,590	\$ 3,131,164

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

Statement of Activities
For the Year Ended December 31, 2017

	Program Revenues			
	Expenses	Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions
Functions/Programs				
Governmental Activities:				
Judicial	\$ 640,249	\$ 458,818	\$ 5,781	\$ -
General Government	10,300,864	1,638,976	381,216	5,723
Public Safety	22,797,465	179,612	697,267	-
Transportation	7,188,240	151,998	715,198	4,022,301
Health & Human Services	830,219	-	41,653	-
Physical & Economic Environment	3,984,274	2,718,282	257,313	-
Culture & Recreation	4,153,513	915,619	28,454	494,040
Interest on long-term debt	14,916	-	-	-
Total Governmental Activities	<u>49,909,740</u>	<u>6,063,305</u>	<u>2,126,882</u>	<u>4,522,064</u>
Business-type Activities:				
Solid Waste & Environmental	195,708	343,441	52,075	-
Surface Water Utilities	2,307,487	2,853,398	90,060	-
Total Business-type Activities	<u>2,503,195</u>	<u>3,196,839</u>	<u>142,135</u>	<u>-</u>
Component Unit Activities				
Seattle Southside Regional Tourism Authority	4,752,412	89,603	1,096,228	-
Total Component Unit Activities	<u>4,752,412</u>	<u>89,603</u>	<u>1,096,228</u>	<u>-</u>
Total Government	<u>\$ 57,165,347</u>	<u>\$ 9,349,747</u>	<u>\$ 3,365,245</u>	<u>\$ 4,522,064</u>

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

	Net (Expense) Revenue & Changes in Net Position		
	Governmental Activities	Business-type Activities	Total
Functions/Programs			
Governmental Activities:			
Judicial	\$ (175,650)	\$ -	\$ (175,650)
General Government	(8,274,950)	-	(8,274,950)
Public Safety	(21,920,586)	-	(21,920,586)
Transportation	(2,298,743)	-	(2,298,743)
Health & Human Services	(788,566)	-	(788,566)
Physical & Economic Environment	(1,008,680)	-	(1,008,680)
Culture & Recreation	(2,715,399)	-	(2,715,399)
Interest on long-term debt	(14,916)	-	(14,916)
Total Governmental Activities	(37,197,489)	-	(37,197,489)
Business-type Activities:			
Garbage & Solid Waste	-	199,808	199,808
Surface Water Utilities	-	635,970	635,970
Total Business-type Activities	-	835,779	835,779
Component Unit Activities			
Seattle Southside Regional Tourism Authority	-	-	-
Total Component Unit Activities	-	-	-
Total Government	\$ (37,197,489)	\$ 835,779	\$ (36,361,710)
General Revenues			
Property taxes	15,479,941	-	15,479,941
Retail sales & use taxes	15,420,148	-	15,420,148
Hotel/Motel taxes	1,800,033	-	1,800,033
Parking taxes	9,324,537	-	9,324,537
Gambling taxes	582,399	-	582,399
Excise taxes	3,812,350	-	3,812,350
Misc Nonoperating	-	5,273	-
Unrestricted investment earnings	310,883	54,153	365,036
Gain on sale of capital assets	691,521	-	691,521
Total General Revenues	47,421,811	59,426	47,475,964
Transfers	419,873	(482,503)	(62,630)
Total General Revenues & Transfers	47,841,684	(423,077)	47,413,333
Change in Net Position	10,644,195	412,702	11,056,897
Net Position-Beg (as prev reported)	466,378,166	30,905,474	497,283,640
Prior Year Adjustments	-	-	-
Net Position-Beginning	466,378,166	30,905,474	497,283,640
Direct Adj for GASB 68	-	(56,947)	(56,947)
Net Position-Ending	\$ 477,022,361	\$ 31,261,229	\$ 508,283,590

City of SeaTac, WA – Governmental Funds

Balance Sheet
December 31, 2017

	Special Revenue			Capital Improvement
	General	Street	Hotel/Motel Tax	Municipal CIP
Assets				
<i>Current Assets:</i>				
Cash & cash equivalents	\$ 13,795,211	\$ 14,773,519	\$ 7,777,276	\$ 5,816,983
Investments	6,922,280	-	-	2,493,282
Receivables (net of allowance for uncollectibles):				
Taxes	3,469,685	921,748	212,298	142,773
Customer accounts & contracts	806,083	36,204	7,000	6,808
Interest & penalties	1,813	-	-	-
Due from other governments	251,169	96,261	-	215
Prepaid items	999,934	937	59,667	-
Total Assets	\$ 26,246,175	\$ 15,828,669	\$ 8,056,241	\$ 8,460,061
Deferred Outflows of Resources				
Total Deferred Outflows of Res	-	-	-	-
Liabilities				
<i>Current Liabilities:</i>				
Accounts & other payable	769,377	238,159	563	53,714
Due to other governments	(51)	-	-	-
Custodial & deposits payable	302,398	466	-	-
Unearned revenue	61,780	-	-	-
Total Liabilities	1,133,504	238,624	563	53,714
Deferred Inflows of Resources				
Unavail revenue-grants/interlocal	3,558	-	-	-
Unavail revenue-property taxes	147,076	-	-	-
Unavail revenue-court fines	437,868	-	-	-
Unavail revenue-leases/permits	102,605	3,865	-	-
Unavail revenue-sp assess/int/pen	-	-	-	400
Total Def Inflows of Resources	691,107	3,865	-	400
Fund Balances (Deficits)				
Nonspendable:				
Prepayments	999,934	937	59,667	-
Restricted:				
Transportation	-	15,585,243	-	-
Tourism promotion & facilities	-	-	7,996,012	-
Des Moines Creek Basin ILA	-	-	-	-
Capital projects & equipment	-	-	-	1,669,557
Debt service	-	-	-	-
Assigned:				
Light Rail Station projects	-	-	-	-
Capital projects & equipment	-	-	-	6,736,389
2015-2016 excess budget approp	127,178	-	-	-
Unassigned	23,294,452	-	-	-
Total Fund Balances	24,421,564	15,586,180	8,055,679	8,405,946
Total Liab, Def Inflows of Res & Fund Balances (Deficits)	\$ 26,246,175	\$ 15,828,669	\$ 8,056,242	\$ 8,460,061

Governmental Funds - City of SeaTac, WA

	Capital Improvement		Other Governmental Funds	Total Governmental Funds
	Municipal Facilities CIP	Transportation CIP		
Assets				
<i>Current Assets:</i>				
Cash & cash equivalents	\$ 873,229	\$ 3,270,951	\$ 5,224,459	\$ 51,531,628
Investments	-	-	-	9,415,562
Receivables (net of allow- ance for uncollectibles):				
Taxes	-	-	-	4,746,504
Customer accounts & contracts	-	3,288,096	-	4,144,191
Interest & penalties	-	-	-	1,813
Due from other governments	-	-	-	347,645
Prepaid items	-	321	-	1,060,859
Total Assets	\$ 873,229	\$ 6,559,368	\$ 5,224,459	\$ 71,248,202
Deferred Outflows of Resources				
Total Deferred Outflows of Res	-	-	-	-
Liabilities				
<i>Current Liabilities:</i>				
Accounts & other payable	5,409	38,600	5,071	1,110,893
Due to other governments	-	-	-	(51)
Custodial & deposits payable	-	-	-	302,864
Unearned revenue	-	-	-	61,780
Total Liabilities	5,409	38,600	5,071	1,475,485
Deferred Inflows of Resources				
Unavail revenue-grants/interlocal	-	3,056,819	-	3,060,377
Unavail revenue-property taxes	-	-	-	147,076
Unavail revenue-court fines	-	-	-	437,868
Unavail revenue-leases/permits	-	10,153	-	116,623
Unavail revenue-sp assess/int/per	-	-	-	400
Total Def Inflows of Resources	-	3,066,972	-	3,762,344
Fund Balances (Deficits)				
Nonspendable:				
Prepayments	-	321	-	1,060,859
Restricted:				
Transportation	-	3,453,476	-	19,038,719
Tourism promotion & facilities	-	-	-	7,996,012
Des Moines Creek Basin ILA	-	-	2,950,457	2,950,457
Capital projects & equipment	-	-	800,000	2,469,557
Debt service	-	-	386,205	386,205
Assigned:				
Light Rail Station projects	-	-	1,082,725	1,082,725
Capital projects & equipment	867,820	-	-	7,604,209
2015-2016 excess budget appro	-	-	-	127,178
Unassigned	-	-	-	23,294,452
Total Fund Balances	867,820	3,453,797	5,219,387	66,010,373
Total Liab, Def Inflows of Res & Fund Balances (Deficits)	\$ 873,229	\$ 6,559,368	\$ 5,224,459	\$ 71,248,202

City of SeaTac, WA – Net Position Reconciliation

Reconciliation of Fund Balances of Governmental Funds to the Net Position of Governmental Activities December 31, 2017

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

Governmental funds total fund balance on December 31, 2017 (as shown on the Balance Sheet for Governmental Funds)	\$	66,010,373
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	\$	321,450,238
Intangibles - easements		127,978
Construction in progress		20,001,547
Buildings & structures		46,647,361
Other improvements		13,478,726
Infrastructure		98,458,034
Equipment		2,122,175
Intangibles - software		615,454
Less: accumulated depreciation		<u>(91,188,242)</u>
		411,713,271
Investments in joint ventures are not a financial resource and, therefore, are not reported in the governmental funds.		3,044,026
The net pension asset is not an available resource and, therefore, is not reported in the governmental funds.		102,761
Other long-term assets are not available to pay current period expenditures and, therefore, are reported as unavailable revenue in the governmental funds.		3,762,344
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		845,455
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	\$	(2,615,100)
Premium on bond issue (amortized over life of debt)		(11,384)
Pension Obligation		(5,910,726)
Deferred Pension Inflows		(1,478,139)
Other post employment benefits payable		(723,620)
Compensated absences payable		<u>(786,926)</u>
		(11,525,895)
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>3,070,027</u>
Net position of governmental activities (as shown on the Government-wide Statement of Net Position)	\$	<u>477,022,361</u>

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

**Statement of Revenues, Expenditures and Changes in Fund Balance
For the Year Ended December 31, 2017**

	General	Street	Hotel/Motel Tax	Municipal CIP
Revenues				
Taxes	\$ 33,644,877	\$ 9,324,537	\$ 1,454,037	\$ 1,681,070
Licenses & permits	1,674,173	33,609	-	-
Intergovernmental & contributions	1,196,544	705,618	30,020	499,763
Charges for services	1,556,706	88,169	-	233,773
Fines & forfeitures	590,309	-	-	4
Investment & other earnings	213,619	101,028	58,877	44,034
Net Change in FV of investments	(61,681)	-	-	(5,975)
Special assessments	-	-	-	-
Rent & leases	1,375,664	6,900	-	-
Miscellaneous	312,419	1,475	-	-
Total Revenues	40,502,630	10,261,336	1,542,934	2,452,669
Expenditures				
Current:				
Judicial	634,863	-	-	-
General Government	10,701,092	-	-	39,740
Public Safety	21,551,818	-	-	-
Physical Environment	-	-	-	-
Transportation	125,447	2,915,460	-	-
Health & Human Services	826,903	-	-	-
Economic Environment	1,895,041	47,288	1,048,110	-
Culture & Recreation	3,377,171	-	-	-
Debt Service:				
Principal	-	-	-	-
Interest & other costs	-	-	-	-
Capital Outlay:				
General Government	-	-	-	64,691
Public Safety	6,809	-	-	-
Transportation	-	169,184	-	-
Economic Environment	-	-	-	24,500
Culture & Recreation	-	-	-	942,454
Total Expenditures	39,119,142	3,131,932	1,048,110	1,071,385
Excess (deficiency) of revenues over (under) expenditures	1,383,488	7,129,404	494,824	1,381,284
Other Financing Sources (Uses)				
Transfers in	791,008	-	-	64,161
Transfers out	(64,161)	(2,627,690)	-	-
Disposal of Capital Assets	-	-	-	-
Total Other Fin Sources (Uses)	726,847	(2,627,690)	-	64,161
Net Change in Fund Balances	2,110,335	4,501,714	494,824	1,445,445
Fund Balances-Beg (as prev repts)	22,311,229	11,084,466	7,560,854	6,960,502
Prior Year Adjustment	-	-	-	-
Fund Balances-January 1st	22,311,229	11,084,466	7,560,854	6,960,502
Fund Balances-December 31st	\$ 24,421,565	\$ 15,586,180	\$ 8,055,678	\$ 8,405,947

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

Governmental Funds - City of SeaTac, WA

	Municipal Facilities CIP	Transportation CIP	Other Governmental Funds	Total Governmental Funds
Revenues				
Taxes	\$ -	\$ -	\$ 345,996	\$ 46,450,517
Licenses & permits	-	-	-	1,707,782
Intergovernmental & contributions	-	1,106,437	194,700	3,733,082
Charges for services	-	118,360	-	1,997,008
Fines & forfeitures	-	-	-	590,313
Investment & other earnings	8,101	26,812	40,602	493,073
Net Change in FV of investments	-	-	-	(67,656)
Special assessments	-	-	-	-
Rent & leases	-	-	-	1,382,564
Miscellaneous	-	-	-	313,894
Total Revenues	8,101	1,251,609	581,298	56,600,577
Expenditures				
Current:				
Judicial	-	-	-	634,863
General Government	-	-	-	10,740,832
Public Safety	-	-	-	21,551,818
Physical Environment	-	-	-	-
Transportation	-	765	-	3,041,671
Health & Human Services	-	-	-	826,903
Economic Environment	-	-	47,743	3,038,182
Culture & Recreation	-	-	-	3,377,171
Debt Service:				
Principal	-	-	320,000	320,000
Interest & other costs	-	-	26,300	26,300
Capital Outlay:				
General Government	118,996	-	-	183,687
Public Safety	122,692	-	-	129,501
Transportation	-	5,279,831	-	5,449,015
Economic Environment	-	-	5,658	30,158
Culture & Recreation	-	-	-	942,454
Total Expenditures	241,688	5,280,596	399,701	50,292,553
Excess (deficiency) of revenues over (under) expenditures	(233,587)	(4,028,987)	181,597	6,308,024
Other Financing Sources (Uses)				
Transfers in	-	2,213,000	135,300	3,203,469
Transfers out	-	-	(5,699)	(2,697,549)
Disposal of Capital Assets	-	821,000	-	821,000
Total Other Fin Sources (Uses)	-	3,034,000	129,601	1,326,919
Net Change in Fund Balances	(233,587)	(994,987)	311,198	7,634,944
Fund Balances-Beg (as prev repts)	1,101,406	4,448,783	4,908,189	58,375,429
Prior Year Adjustment	-	-	-	-
Fund Balances-Beginning	1,101,406	4,448,783	4,908,189	58,375,429
Fund Balances-Ending	\$ 867,819	\$ 3,453,796	\$ 5,219,386	\$ 66,010,373

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

**Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended December 31, 2017**

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)		\$ 7,634,944
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	5,350,347	
Depreciation expense	<u>(5,699,995)</u>	(349,648)
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. asset sales, transfers, etc) is to decrease net position.		
		(684,470)
Investment in joint ventures are not considered financial resources and are, therefore, not reported in the governmental funds.		
		22,947
The issuance of long-term debt is a resource and the repayment of bond principal is an expenditure in governmental funds, but those transactions increase or reduce long-term liabilities in the Statement of Net Assets. These debt related items consist of:		
Premium on debt refunding	11,384	
Debt principal repayments	<u>320,000</u>	331,384
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.		
		941,356
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.		
		2,751,361
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	(93,318)	
Net increase in compensated absences	<u>(11,559)</u>	(104,877)
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	29,666	
Gain on sale of capital assets	32,318	
Transfers involving other funds (net)	<u>39,215</u>	<u>101,198</u>
Change in net position of governmental activities (as shown on the Statement of Activities-Governmental Activities)		<u>\$ 10,644,195</u>

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

Statement of Net Position
December 31, 2017

	Business-type Activities			Governmental Activities
	Surface Water Utility	Solid Waste and Environmental	Total Enterprise Funds	Internal Service Fund- Equipment Rental
Assets				
Current Assets:				
Cash & cash equivalents	\$ 6,397,839	\$ 126,559	\$ 6,524,398	\$ 988,150
Investments	\$ -	-	-	494,082
Customer receivables (net)	\$ 188,389	37,853	226,242	20
Other receivables	\$ -	22,404	22,404	-
Prepaid items	\$ 12,512	309	12,821	-
Restricted cash & investments:				
Total Current Assets	<u>\$ 6,598,740</u>	<u>187,125</u>	<u>6,785,865</u>	<u>1,482,252</u>
Noncurrent Assets:				
Capital assets (net of accumulated depreciation):				
Buildings	\$ 161,765	-	\$ 161,765	-
Other improvements	\$ 24,265,062	-	\$ 24,265,062	-
Vehicles and equipment	\$ 5,691	-	\$ 5,691	1,858,552
Intangible assets - software	\$ 39,539	-	\$ 39,539	-
Intangible assets - easements	\$ 35,442	-	\$ 35,442	-
Construction in progress	\$ 218,535	-	\$ 218,535	-
Total Noncurrent Assets	<u>\$ 24,726,034</u>	<u>-</u>	<u>\$ 24,726,035</u>	<u>1,858,552</u>
Total Assets	<u>\$ 31,324,774</u>	<u>\$ 187,125</u>	<u>\$ 31,511,899</u>	<u>\$ 3,340,804</u>
Deferred Outflows of Resources				
Deferred Outflows Related to Pensions	\$ 47,763	\$ 10,120	\$ 57,883	\$ 2,113
Liabilities				
Current Liabilities:				
Accounts payable	101,849	-	101,849	28,653
Due to other governments	9,074	-	9,074	-
Compensated absences	2,652	368	3,020	249
Retainage Payable	10,465	-	10,465	-
Total Current Liabilities	<u>124,040</u>	<u>368</u>	<u>124,408</u>	<u>28,902</u>
Noncurrent Liabilities:				
Compensated absences	50,379	6,999	57,378	4,733
Net pension liability	209,583	44,392	253,975	9,280
Total Noncurrent Liabilities	<u>259,962</u>	<u>51,391</u>	<u>311,353</u>	<u>14,013</u>
Total Liabilities	<u>384,002</u>	<u>51,759</u>	<u>435,761</u>	<u>42,915</u>
Deferred Inflows of Resources				
Deferred Inflows Related to Pensions	81,055	17,167	98,222	4,545
Net Position				
Investment in capital assets	24,726,035	-	24,726,035	1,858,551
Restricted for:				
Debt service	-	-	-	-
Unrestricted	6,181,445	128,319	6,309,764	1,436,906
Total Net Position	<u>\$ 30,907,480</u>	<u>\$ 128,319</u>	<u>\$ 31,035,799</u>	<u>\$ 3,295,457</u>
Cumulative adjustment to reflect the consolidation of the Equipment Rental Internal Service Fund activities as related to enterprise funds over time.			<u>225,430</u>	
Net position of business-type activities			<u>\$ 31,261,229</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, 2017**

	Business-type Activities			Governmental Activities
	Surface Water Utility	Solid Waste and Environmental	Total Enterprise Funds	Internal Service Fund- Equipment Rental
Operating Revenues				
Charges for Services:				
Total Operating Revenues	2,853,398	343,441	3,196,839	612,260
Operating Expenses				
Maintenance & operations	1,407,969	195,708	1,603,676	294,503
Administrative & general	252,358	-	252,358	-
Depreciation	660,313	-	660,313	290,417
Total Operating Expenses	2,320,639	195,708	2,516,347	584,920
Operating Income (Loss)	532,759	147,733	680,492	27,340
Nonoperating Revenues (Exps)				
Intergovernmental revenues	90,060	52,075	142,135	-
Investment earnings	53,698	456	54,153	4,936
Gain (loss) on disposal of assets	-	-	-	32,318
Misc nonoperating revs (exps)	5,273	-	5,273	10,541
Total Nonoperating Revs (Exps)	149,031	52,531	201,561	47,795
Income (Loss) Before Contributions & Transfers	681,790	200,265	882,053	75,136
Transfers in	3,695	-	3,695	62,630
Transfers out	(471,198)	(15,000)	(486,198)	(23,416)
Change in Net Position	214,286	185,265	399,550	114,350
Net Position-Beginning	30,693,194	-	30,693,194	3,181,107
Changes in Accounting Principle - GASB 68	-	(56,947)	(56,947)	-
Net Position-Ending	<u>\$ 30,907,480</u>	<u>\$ 128,318</u>	<u>\$ 31,035,797</u>	<u>\$ 3,295,457</u>

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.

13,152

Change in net position of business-type activities

\$ 412,702

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

Statement of Cash Flows
For the Year Ended December 31, 2017

	Business-type Activities-Enterprise Funds			Governmental Activities
	Surface Water Utility	Solid Waste and Environmental	Total Enterprise Funds	Internal Service Funds
Cash Flows from Operating Activities:				
Receipts from customers	\$ 2,716,278	\$ 283,184	\$ 2,999,462	\$ (20)
Receipts from other funds	171,300	(37,391)	133,909	612,260
Payments to suppliers	(430,670)	(309)	(430,979)	(288,289)
Payments to employees	<u>(1,222,351)</u>	<u>(156,457)</u>	<u>(1,378,808)</u>	<u>(2,620)</u>
Net Cash Provided (Used) by Operating Activities	1,234,557	89,027	1,323,584	321,331
Cash Flows from Noncapital Financing Activities:				
Intergovernmental revenue	90,060	52,075	90,060	-
Transfers from other funds	3,695	-	3,695	-
Transfers to other funds	(471,198)	(15,000)	(486,198)	(23,416)
Nonoperating revenue received	<u>5,273</u>	<u>-</u>	<u>5,273</u>	<u>10,541</u>
Net Cash Provided (Used) by Noncapital Financing Activities	(372,170)	37,075	(335,095)	(12,875)
Cash Flows from Capital & Related Financing Activities:				
Capital contributions	-	-	-	-
Proceeds from sale of assets	-	-	-	32,318
Capital grants	-	-	-	-
Proceeds from damaged assets	-	-	-	-
Purchase of capital assets	<u>(218,536)</u>	<u>-</u>	<u>(218,536)</u>	<u>(206,495)</u>
Net Cash Provided (Used) by Capital & Related Financing Activities	(218,536)	-	(218,536)	(174,177)
Cash Flows from Investing Activities:				
Interest received	<u>53,698</u>	<u>456</u>	<u>54,154</u>	<u>9,931</u>
Net Cash Provided (Used) by Investing Activities	<u>53,698</u>	<u>456</u>	<u>54,154</u>	<u>9,931</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>697,549</u>	<u>126,558</u>	<u>824,107</u>	<u>144,210</u>
Cash & Cash Equivalents-Beginning*	<u>5,700,289</u>	<u>-</u>	<u>5,700,289</u>	<u>1,343,016</u>
Cash & Cash Equivalents-Ending	<u>\$ 6,397,838</u>	<u>\$ 126,558</u>	<u>\$ 6,524,396</u>	<u>\$ 1,487,226</u>

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

	Business-type Activities-Enterprise Funds			Governmental Activities
	Surface Water Utility	Solid Waste and Environmental	Total Enterprise Funds	Internal Service Funds
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Operating Income (Loss)	\$ 532,759	\$ 147,733	\$ 680,492	\$ 27,340
Adjustments to reconcile operating income to net cash provided (used) by operating activities:				
Depreciation	660,313	-	660,313	290,417
Pension Expense	(47,581)	(5,507)	(53,088)	(1,151)
(Incr) decr in accts receivable	34,180	(60,257)	(26,077)	(20)
(Incr) decr in prepaid expenses	(12,291)	(309)	(12,600)	894
Incr (decr) in accounts payable	48,710	-	48,710	5,320
Incr (decr) in due to other government	-	-	-	-
Incr (decr) in compensated absences	18,468	7,367	25,835	(1,469)
Total adjustments	701,799	(58,706)	643,093	293,991
Net Cash Provided (Used) by Operating Activities	\$ 1,234,557	\$ 89,027	\$ 1,323,584	\$ 321,331

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, 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 Capital Improvement Fund (#301) accounts for general capital improvements. Revenues deposited to the Fund include sales taxes associated with capital projects at the Port of Seattle airport and real estate excise tax.

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 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 proprietary funds 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 Solid Waste and Environmental Services Fund (#404) accounts for costs related to the administration of the City's recycling and education program. These activities are supported through solid waste services franchise fees and recycling grants.

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 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, Port of Seattle ILA, Transit Planning, Hotel/Motel Tax, Building Management, Facility Repair and Replacement, and Des Moines Creek Basin ILA Fund), Debt Service Funds (2009 LTGO Refunding Bonds and SCORE Bond Fund), Capital Project Funds (Municipal Capital Improvement, Municipal Facilities CIP, Transportation CIP and Light Rail CIP), Enterprise Fund (Surface Water Utility and Solid Waste and Environmental Services) 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 five funds (General 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, 2017, the City had holdings of \$59,044,175 (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, 2017, the City's total cash and cash equivalents (including cash restricted for debt) consisted of the following:

US Bank, General Fund Checking Account	\$6,884,426
US Bank, Municipal Court Checking Account.....	37,463
Cash with Kidder Mathews.....	34,794
Cash Equivalents with State Treasurer's Investment Pool.....	52,077,592
City Hall Postage Meter Fund.....	8,000
Petty Cash/Change Funds.....	1,900
Total Cash and Cash Equivalents.....	<u>\$59,044,175</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 \$11.5 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 2017.

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 prior to 2017 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. 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 2017, total compensated absences liability was \$786,925 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, 2017 was \$53,032. It is estimated that \$2,652 of this liability will be due within one year. The total liability amount in the City's Solid Waste and Environmental Services Fund at December 31, 2017 was \$7,367. It is estimated that \$368 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 \$4,982 and it is estimated that \$249 of this liability will be due within one year. The Equipment Rental compensated absence liability has been included in the governmental activities column of the government-wide Statement of Net Position.

10. 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

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 \$225,456 difference are as follows:

Internal receivable representing charges in excess of cost to business-type activities – prior years	\$212,278
Internal receivable representing charges under cost to business-type activities – current year	<u>13,152</u>
Net adjustment to increase net position – total enterprise funds to arrive at net position – business-type activities	<u><u>\$225,430</u></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). All deposits not covered by the FDIC are covered by the 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.

The Local Government Investment Pool (LGIP) is managed and operated by the Office of the State Treasurer (OST). The State Finance Committee is the administrator of the statute that created the pool and adopts appropriate rules. The State Treasurer is responsible for establishing the investment policy for the pool and reviews it annually. Any proposed changes are reviewed by the LGIP Advisory Committee. The terms of the policy are designed to ensure the safety and liquidity of the funds deposited in the LGIP. The LGIP is invested in a manner that meets the maturity, quality, diversification and liquidity requirements set forth by GASB for external investment pools that elect to measure, for financial reporting purposes, investments at amortized cost. The LGIP has no limitations or restrictions on withdrawals.

Investments Measured at Amortized Cost

As of December 31, 2017, the City of SeaTac held the following investments at amortized cost:

<u>Washington State Local Government Investment Pool</u>	<u>52,077,592</u>
Total	\$ 52,077,592

Credit Risk: Credit risk is the risk that an issuer will fail to pay principal or interest in a timely manner, or that negative perceptions of the issuer’s ability to make these payments will cause the price of the investment to decline. The City’s investment policy applies the prudent person standard; investments will be made with judgment and care, under circumstances then prevailing, which a person of prudence, discretion and intelligence would use in the management of their own affairs, not for speculation, but for investment purposes. The Washington State Local Government Investment Pool is a 2a7-like pool and is unrated. The credit ratings on

securities held by the City of SeaTac on December 31, 2017, are listed below:

Investment Type	Ratings		Fair Value
	Moody's	S&P	
Government Sponsored Enterprises			
Federal National Mortgage Association	Aaa	AA+	2,470,410
Federal Home Loan Bank	Aaa	AA+	2,454,679
Resolution Funding Corporation Strips	NR	NR	4,984,555
Total			\$ 9,909,644

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 securities at year-end were held in safekeeping by a third party custodian and are not exposed to custodial credit risk.

Concentration of Credit Risk: Concentration of credit risk is the risk associated with a lack of diversification or having too much invested in a few individual issues. It is the City's policy to diversify its investments by security type and institution. The City's policy is to assure that no single institution or security is invested to such an extent that a delay of liquidation at maturity is likely to cause a current cash flow emergency. With the exception of U.S. Treasury securities and authorized pools, no more than 30% of the entity's total investment portfolio will be invested in a single security type, issuer or financial institution.

Cash Deposits and Investments	Fair Value	Cost Based Measure	Percent of Total
Government Sponsored Enterprises			
Federal National Mortgage Association	\$ 2,470,410		3.58%
Federal Home Loan Bank	2,454,679		3.56%
Resolution Funding Corporation Strips	4,984,555		7.23%
Cash on Hand		9,900	0.00%
FDIC or PDPC Insured Bank Deposits		6,956,683	10.09%
Washington State Local Government Investment Pool		52,077,592	75.53%
Total		\$ 9,909,644	\$ 59,044,175
Total Cash, Deposits and Investments			\$ 68,953,819

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The City does not have a formal policy that addresses interest rate risk. The portfolio weighted maturity at year end was 2.82 years.

The Washington State Local Government Investment Pool is an unrated 2a-7 like pool as defined by GASB 31, accordingly participants balances are not subject to interest rate risk as the weighted average maturity of the portfolio will not exceed 90 days. The Average Days to Maturity on December 31, 2017, was 37 days.

Investment Type	Fair Value	Maturities (in Years)	
		Less Than 1	1 to 5
Government Sponsored Enterprises	\$ 4,925,089	\$	4,925,089
U.S. Treasury Strips	4,984,555		4,984,555
Total Investments	\$ 9,909,644	\$ -	\$ 9,909,644

Fair Value Hierarchy: Securities classified as Level 1 in the fair value hierarchy are valued using prices quoted in active markets for identical securities, Level 2 securities are valued using observable inputs, and Level 3 securities are valued using unobservable inputs. U.S. Treasury and Government Sponsored Enterprise (GSE) Securities classified in Level 2 are valued using quoted prices for similar securities and interest rates. The level of fair value measurement is based on the lowest level of significant input for the security type in its entirety. There are no Level 1 or Level 3 security classifications to report. Cash on hand, bank deposits, cash held by other entities and the Local Government Investment Pool (LGIP) are valued using a cost based measure.

Investments By Fair Value	12/31/2017	Quoted Prices		
		In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Government Sponsored Enterprises	\$ 9,909,644	\$ -	\$ 9,909,644	\$ -
Total By Fair Value Level	\$ 9,909,644	\$ -	\$ 9,909,644	\$ -

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 \$2.892 per \$1,000 of assessed value. Based on a City-wide assessed valuation of \$5,405,585,665 the total property tax levy for 2017 was \$15,645,311 (Note: Property taxes collected in 2017 are based on the 2016 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 2017. Please note that \$1,858,551 (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 01/01/2017	Increases	Decreases	Transfers In/ (Out)	Ending Balance 12/31/2017
Capital assets not being depreciated:					
Land	\$321,612,036	\$0	\$(161,798)	\$0	\$321,450,239
Intangible Assets–Easements	127,978	0	0	0	127,978
Construction in Progress (CIP)	15,566,674	4,497,744	(62,871)	0	20,001,547
Total assets not being deprec.	\$337,306,688	\$4,497,744	\$(224,668)	\$0	\$341,579,764
Capital assets being depreciated:					
Buildings/Bldg Improvements	\$48,425,161	\$22,224	\$(1,800,027)	\$0	\$46,647,358
Other Improvements	12,628,650	850,075	0	0	13,478,725
Infrastructure	98,458,034	0	0	0	98,458,034
Equipment/Vehicles	2,150,690	18,675	(47,188)	0	2,122,176
Equipment/Vehicles (Eq Rental)	3,838,362	222,527	(160,327)	62,630	3,963,193
Intangible Assets-Software	635,474	24,500	(44,522)	0	615,452
Total assets being depreciated	\$166,136,370	\$1,138,001	\$(2,052,064)	\$62,630	\$165,284,937
Total governmental capital assets before depreciation	\$503,443,059	\$5,635,745	\$(2,276,733)	\$62,630	\$506,864,701
Less accumulated depreciation for:					
Buildings/Bldg Improvements	\$(19,060,570)	\$(1,951,329)	\$1,117,175	\$0	\$(19,894,724)
Other Improvements	(7,012,004)	(520,212)	0	0	(7,532,216)
Equipment/Vehicles	(1,674,528)	(109,532)	45,570	0	(1,738,490)
Equipment/Vehicles (Eq Rental)	(1,958,520)	(290,417)	144,295	0	(2,104,642)
Infrastructure	(58,436,481)	(3,084,778)	0	0	(61,521,259)
Intangible Assets-Software	(511,929)	(34,144)	44,522	0	(501,552)
Total accumulated depreciation	\$(88,654,033)	\$(5,990,412)	\$1,351,562	\$0	\$(93,292,882)
Total governmental activities capital assets (net)	\$414,789,026	\$(354,666)	\$(925,171)	\$62,630	\$413,571,819

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	519,173
Public Safety	341,955
Physical & Economic Environment	943,897

Transportation	3,115,170
Transportation (Equipment Rental – Internal Service Fund)	290,417
Culture & Recreation	777,464
Total Depreciation Expense-Governmental Activities	\$5,990,412

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 2017:

Business-Type Activities Capital Assets	Beginning Balance 01/01/2017	Increases	Decreases	Transfers In & (Out)	Ending Balance 12/31/2017
Capital assets not being depreciated:					
Construction in Progress	\$0	\$218,535	\$0	\$0	\$218,535
Intangible Assets-Easements-SWM	35,442	0	0	0	35,442
Total assets not being depreciated	\$35,442	\$218,535	\$0	\$0	\$253,977
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	156,634	0	0	0	156,634
Total assets being depreciated	33,309,279	0	0	0	33,309,279
Total business-type capital assets before depreciation	\$33,344,721	\$0	\$0	\$0	\$33,563,256
Less accumulated depreciation for:					
Buildings	(61,635)	(5,161)	0	0	(66,795)
Other Improvements	(8,007,765)	(638,399)	0	0	(8,646,104)
Equipment	(4,238)	(2,988)	0	0	(7,227)
Intangible Assets-Software	(103,270)	(13,824)	0	0	(117,094)
Total accumulated depreciation	\$(8,176,908)	\$(660,313)	\$0	\$0	\$(8,837,221)
Total bus-type capital assets (net)	\$25,167,813	\$(441,778)	\$0	\$0	\$24,726,035

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

Business-type Activities:	
Utilities/Physical Environment (Surface Water Utility)	\$660,313
Total Depreciation Expense-Business-type Activities	\$660,313

C. Construction Commitments

The following table describes the active construction projects on December 31, 2017 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	\$4,269,525	\$212,755
Ceccanti, Inc. - Connecting 28 th /24 th Avenue South - Construction	12,264,343	2,672,184
Parametrix – Military Rd S & S 152 nd St	139,772	510,228
KPG Inc. – S 166 th St Pedestrian Improvements	16,455	216,545
Nordvind Sewer Services - Riverton Heights Property Development	273,764	13,637
Forest Gardens LLC - Angle Lake to Hughes Property Trail	347,480	16,888
Bruce Dees & Associates LLC – Valley Ridge Sports Field Improvements	130,410	76,590
Total Outstanding Construction Commitments	\$17,441,749	\$3,718,827

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 2017:

Aggregate Pension Amounts – All Plans	
Pension liabilities	\$(6,173,981)
Pension assets	\$ 102,761
Deferred outflows of resources	\$905,451
Deferred inflows of resources	\$ (1,579,737)
Pension expense/expenditures	\$22,048

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 2017 were as follows:

PERS Plan 1		
Actual Contribution Rates	Employer	Employee*
January - June 2017:		
PERS Plan 1	6.23%	6.00%
PERS Plan 1 UAAL	4.77%	
Administrative Fee	0.18%	
Total	11.18%	6.00%
July - December 2017:		
PERS Plan 1	7.49%	6.00%
PERS Plan 1 UAAL	5.03%	
Administrative Fee	0.18%	
Total	12.70%	6.00%

* For employees participating in JBM, the contribution rate was 12.26%.

PERS Plan 2/3 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member’s average final compensation (AFC) times the member’s years of service for

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

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

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

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

Contributions

The **PERS Plan 2/3** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2017 were as follows:

PERS Plan 2/3		
Actual Contribution Rates	Employer 2/3	Employee 2*
January – June 2017:		
PERS Plan 2/3	6.23%	6.12%
PERS Plan 1 UAAL	4.77%	
Administrative Fee	0.18%	
Employee PERS Plan 3		varies
Total	11.18%	6.12%
July – December 2017:		
PERS Plan 2/3	7.49%	7.38%

PERS Plan 1 UAAL	5.03%	
Administrative Fee	0.18%	
Employee PERS Plan 3		Varies
Total	12.70%	7.38%

* For employees participating in JBM, the contribution rate was 15.30% for January – June 2017 and 18.45% for July - December 2017.

The City’s actual PERS plan contributions were \$441,631 to PERS Plan 1 and \$612,706 to PERS Plan 2/3 for the year ended December 31, 2017.

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 2017 with a valuation date of June 30, 2016. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary’s (OSA) *2007-2012 Experience Study* and the *2015 Economic Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2016 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2017. Plan liabilities were rolled forward from June 30, 2016, to June 30, 2017, reflecting

each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

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

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

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

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

Discount Rate

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

Long-Term Expected Rate of Return

The long-term expected rate of return on the DRS pension plan investments of 7.5 percent was determined using a building-block-method. In selecting this assumption, the Office of the State Actuary (OSA) reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered capital market assumptions and simulated expected investment returns provided by the Washington State Investment Board (WSIB). The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns over various time horizons.

Estimated Rates of Return by Asset Class

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2017, are summarized in the table below. The inflation component

used to create the table is 2.2 percent and represents the WSIB’s most recent long-term estimate of broad economic inflation.

Asset Class	Target Allocation	% Long-Term Expected Real Rate of Return Arithmetic
Fixed Income	20%	1.70%
Tangible Assets	5%	4.90%
Real Estate	15%	5.80%
Global Equity	37%	6.30%
Private Equity	23%	9.30%
	100%	

Sensitivity of 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	\$3,913,744	\$3,212,750	\$2,605,539
PERS 2/3	7,977,866	2,961,231	(1,149,157)
LEOFF 1	(76,225)	(102,761)	(125,550)

Pension Plan Fiduciary Net Position

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

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

At June 30, 2017, the City reported a total pension liability of \$6,173,981 for its proportionate share of the net pension liabilities as follows:

	Liability (or Asset)
PERS 1	\$3,212,750
PERS 2/3	2,961,231
LEOFF 1	(102,761)

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	(102,761)
State's proportionate share of the net pension asset associated with the employer	(695,075)
TOTAL	(797,836)

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

	Proportionate Share 6/30/16	Proportionate Share 6/30/17	Change in Proportion
PERS 1	.075408%	.067707%	.007701%
PERS 2/3	.095030	.085227	.009803%
LEOFF 1	.006678	.006773	.000095%

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 2017. Historical data was obtained from a 2011 study by the Office of the State Actuary (OSA). In fiscal year 2017, the state of Washington contributed 87.12 percent of LEOFF 1 employer contributions and all other employers contributed the remaining 12.88 percent of employer contributions. LEOFF 1 is fully funded and no further employer contributions have been required since June 2000. If the plan becomes underfunded, funding of the remaining liability will require new legislation. The allocation method the plan chose reflects the projected long-term contribution effort based on historical data.

In fiscal year 2017, the state of Washington contributed 39.35 percent of LEOFF 2 employer contributions pursuant to RCW 41.26.725 and all other employers contributed the remaining 60.65 percent of employer contributions.

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

Pension Expense

For the year ended December 31, 2017, the City recognized pension expense as follows:

	Pension Expense
PERS 1	(\$206,005)
PERS 2/3	\$245,469
LEOFF 1	(\$17,416)
TOTAL	\$22,048

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2017, 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	\$0	(\$119,891)
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	\$230,588	\$0
TOTAL	\$230,588	(\$119,891)

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$300,043	(\$97,390)
Net difference between projected and actual investment earnings on pension plan investments	\$0	(\$789,393)
Changes of assumptions	\$31,454	\$0
Changes in proportion and differences between contributions and proportionate share of contributions	\$0	(\$563,514)
Contributions subsequent to the measurement date	\$343,366	\$0
TOTAL	\$674,863	(\$1,450,297)

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	\$0	(\$9,549)
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	\$0	(\$9,549)

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, 2018. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows :

Year ended December 31:	PERS 1
2018	(\$81,039)
2019	\$25,585
2020	(\$5,941)
2021	(\$58,497)
Thereafter	\$0

Year ended December 31:	PERS 2/3
2018	(\$474,166)
2019	(\$58,323)
2020	(\$141,180)
2021	(\$374,768)
2022	(\$30,593)
Thereafter	(\$39,771)

Year ended December 31:	LEOFF 1
2018	(\$5,993)
2019	\$1,616
2020	(\$645)
2021	(\$4,527)
2022	\$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, accidental death and dismemberment, and life insurance benefit coverage.

As of December 31, 2017, there were 111 active members in the City of SeaTac Retirement Trust. Actual employee contributions during the year amounted to \$533,862. Actual employer contributions were \$419,633.

Actuarial determinations are not required because (1) short-term and long-term disability, and life and accidental death and dismemberment insurance are provided by a group insurance policy with Sun Life Financial; 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**

Short and long-term disability benefits provide eligible employees, pending claim approval, 60% of compensation with a \$1,800 per week maximum for short-term disability and a \$7,800 per month maximum for long-term disability. Disability benefit premiums are paid 100% by the City's contributions.

2) **Life and Accidental Death and Dismemberment Insurance**

Life insurance coverage for eligible employees equals two times annual earnings, up to a maximum of \$300,000. Subject to terms and limitations set forth in the group policy. The policy includes equal amount of accidental death and dismemberment insurance, which provides a benefit if an eligible employee suffers a covered accidental injury or dies from a covered accident. The premium for these benefits are paid by the City.

3) **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 or personal monthly ACH payments. 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 including but not limited to: tort, theft of, damage to, and destruction of assets; errors & omissions; injuries or property damage to others, and natural disasters. The City purchases commercial insurance as the primary method of managing risk. The City carries a number of policies with varying deductibles depending on risk category, through multiple insurance carriers and producers brokered through Leavitt Group, the commercial insurance broker. The City's General Fund accounts for and expends monies for the procurement of

insurance, payments of insurance deductibles, claims settlement, and administration of a risk management and safety program.

There were no significant reductions in insurance coverage from the previous year. The City's 2017 commercial insurance policies limits and deductibles are as follows:

Program	Limits*	Deductible
CIAW/CHUBB Insurance Program		
<i>*General Liability</i>	\$5,000,000	\$50,000
<i>*Employers Liability (Stop Gap)</i>	\$1,000,000	\$50,000
<i>*Auto Liability</i>	\$5,000,000	\$25,000
<i>*Public Officials & EPL Liability</i>	\$5,000,000	\$100,000
<i>*Miscellaneous Professional Liability</i>	N/A	\$100,000
<i>*Flood</i>	\$100,000,000	\$100,000
<i>*Earth Movement</i>	\$2,000,000	\$100,000
<i>*Sexual Abuse Liability</i>	\$2,000,000	\$50,000
Navigators Specialty Insurance Company		
<i>*Umbrella Policy</i>	\$5,000,000	N/A
Travelers		
<i>*Crime Policy</i>	variable	\$25,000
Colony Insurance Company		
<i>*Pollution Policy (fuel storage tanks)</i>	\$3,000,000	\$1,000
Alliant Property Insurance Program		
<i>*Property</i>	\$100,000,000	\$10,000
<i>Includes Auto Physical Damage</i>		
<i>Includes Inland Marine</i>		

**Limits subject to the terms, conditions and exclusions of the policy.*

In order to manage risk of employee work-related injuries, industrial insurance coverage 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. Industrial Insurance costs are expended/expensed in the corresponding operating department/fund.

The City's unemployment insurance provides compensation to workers who are temporarily and involuntarily unemployed. This coverage is provided by the State of Washington and is administered 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. Unemployment Insurance costs are expended/expensed in the corresponding operating department/fund.

NOTE 9: SHORT-TERM DEBT

As of December 31, 2017, 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 2017 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	\$330,000
Total General Obligation Bonds		\$2,675,000	\$330,000
2009 South Correctional Entity Facility Public Development Authority Bonds Series 2009A Bonds (2015/2016/2017/2021/2022)	4.00% - 5.00%	\$246,150	\$82,650
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	\$2,202,450

Total Special Obligation Bonds (Contractual)	\$2,587,050	\$2,285,103
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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
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	\$330,000	\$13,200	Total SCORE Bonds	\$2,285,100	\$1,874,321

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 2017, the City has used 2.8% 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 \$78.8 million remaining in available debt capacity. For voted debt (up to 2.5% of total taxable property), the City has \$132.8 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 \$54 million in voted debt could be issued for general purposes.)

The City had no arbitrage rebate liability for outstanding tax-exempt bonds in 2017.

At December 31, 2017, the City had \$386,205 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 four 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 2017, accumulated depreciation on the building was \$6.7 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 2017, the City had 1 tenant 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	5,135	1,427	1,969	8,618	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	MTM	1/31/2019	MTM	7/31/2017	MTM
Contract Terms	Lease extension: \$18.96 sq ft w/3% increase annually + 236 sq ft storage	\$4,796 per month	Lease #1: \$15.45 sq ft w/3% increase annually	Lease #2: \$15.45 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	\$1,170 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	MTM	2/28/2018	5/31/2018	5/31/2018	6/30/2018
Contract Terms	\$25.44 sq ft w/3% increase annually	Lease Extension: \$3,812 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	\$19.00 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.

2018	364,691
2019	<u>58,619</u>
Total min lease payments required	\$423,310

NOTE 12: CHANGES IN LONG-TERM LIABILITIES

During the year ended December 31, 2017, the following changes occurred in long-term liabilities:

	Beginning Balance 01/01/17	Additions	Reductions	Ending Balance 12/31/17	Due Within One Year
Governmental Activities:					
Bonds payable:					
General obligation bonds	\$650,000	\$0	\$(320,000)	\$330,000	\$330,000
Special obligation bonds	2,349,450	0	(64,350)	2,285,100	67,200
Add: Premium on GO bonds	22,769	0	(11,384)	11,384	11,384
Total bonds payable - net	\$3,022,219	\$0	\$(395,734)	\$2,626,484	\$408,584
Other post-employment benefits-NOO	630,302	144,546	(51,228)	723,620	N/A
Compensated absences	780,347	25,189	(18,611)	786,925	39,346
Compensated absences-ISF	6,450	0	(1,468)	4,982	249
Gov activities long-term liabilities	\$1,417,099	\$169,735	\$(71,307)	\$1,515,527	\$39,595
Business-type Activities:					
Compensated absences	\$34,563	\$25,834	\$(0)	\$60,398	\$3,020
Bus-type activities long-term liab	\$34,563	\$25,834	\$(0)	\$60,398	\$3,020

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 \$4,982 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 claims and lawsuits that have not been resolved:

Warren Bell v. City of SeaTac, et al, Case No.: 2:18-cv-00006, United States District Court Western District of Washington. Mr. Bell filed a lawsuit claiming that the City changed his address in the Municipal Court records system, which led to him not receiving notification for a Court hearing. This failure to receive the hearing notice led to the issuance of a bench warrant and his subsequent arrest on that warrant. He is seeking damages of \$2,000,000. The City denies any liability and the City's insurance company has assigned defense counsel. It is anticipated that this case will be resolved in favor of the City. It is further anticipated that the City's maximum financial exposure will not exceed the City's \$50,000 insurance deductible, inclusive of defense costs.

King County Water District No. 125 v. City of SeaTac, et al, Case No.: 18-2-00729-1, King County Superior Court. Water District No. 125 filed a lawsuit against the City, claiming that the City's lack of maintenance and repair of a 72-inch pipe that conveys a portion of a Miller Creek caused a sinkhole that damaged their water main. The Water District is seeking damages in excess of \$204,000. The City denies any liability and the City's insurance company has assigned defense counsel. It is unknown whether this case will be resolved in favor of the City. It is anticipated that the City's maximum financial exposure will not exceed the City's \$50,000 insurance deductible, inclusive of defense costs.

Claim filed by Jennifer Carson. Ms. Carson filed a claim against the City in the amount of \$750,000 for personal injuries sustained when she tripped over a City sidewalk in June, 2015. No lawsuit has been filed, and the City's insurance company has been notified. The City denies any liability at this time, although further investigation is ongoing. It is unknown whether this case will be resolved in favor of the City. It is anticipated that the City's maximum financial exposure will not exceed the City's \$50,000 insurance deductible, inclusive of defense costs.

Claim filed by Mary Guiberson. Ms. Guiberson filed a claim against the City in an unspecified amount for personal injuries sustained when she tripped over a City sidewalk in September, 2016. No lawsuit has been filed, and the City's insurance company has been notified. The City denies any liability at this time, although further investigation is ongoing. It is unknown whether this case will be resolved in favor of the City. It is anticipated that the City's maximum financial exposure will not exceed the City's \$50,000 insurance deductible, inclusive of defense costs.

Claim filed by Penny Smith. Ms. Smith filed a claim against the City in the amount of \$250,000 for injuries sustained when she was struck by a vehicle while crossing the street in November, 2016. She asserts that the crosswalk signal malfunctioned, leading to the accident. No lawsuit has been filed, and the City's insurance company has been notified. The City denies any liability at this time, although further investigation is ongoing. It is unknown whether this case will be resolved in favor of the City. It is anticipated that the City's maximum financial exposure will not exceed the City's \$50,000 insurance deductible, inclusive of defense costs.

Claim filed by the Estate of Abdule Mohamed. The Estate of Abdule Mohamed filed a claim against the City in the amount of \$250,000 for injuries sustained when he was struck by a vehicle while crossing the street in December, 2015. The Estate asserts that there was not a designated crosswalk or sufficient lighting where the accident occurred. No lawsuit has been filed, and the City's insurance company has been notified. The City denies any liability at this time, although further investigation is ongoing. It is unknown whether this case will be resolved in favor of the City. It is anticipated that the City's maximum financial exposure will not exceed the City's \$50,000 insurance deductible, inclusive of defense costs.

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 \$32,663,250 in restricted net assets. None of the restrictions were from enabling legislation.

NOTE 15: INTER-FUND BALANCES & TRANSFERS

During 2017, 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 (In)	Fund	General Fund #001 ¹	Street Fund #102	SWM Utility Fund #403	Solid Waste & Enviro. #404	Equipment Rental Fund #501 ²	Other Non-Major Funds	Totals
		General Fund #001	0	414,690	335,898	15,000	23,416	532,008
	Municipal CIP #301	0	0	0	0	0	64,161	64,161
	Transportation CIP Fund #307	0	2,213,000	0	0	0	0	2,213,000
	Surface Water Util. Fund #403	0	0	0	0	0	3,695	3,695
	Other Non-Major Funds	0	0	135,300	0	0	0	135,300
	Total Cash Transfers	0	2,627,690	471,198	15,000	23,416	599,864	3,737,168
	Transfer in of capital assets:							
	To Equipment Rental Fund #501 from General Fund #001							6,809
	To Equipment Rental Fund #501 from Street Fund #102							55,821
	Total Interfund Transfers							3,799,798

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 two inter-fund transfers of capital assets in 2017.

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 2017:

1. Street Fund #102 – Reimbursement of administrative costs (\$408,287) and Maintenance Facility maintenance costs (\$6,403) for a total amount of \$414,690.
2. Facility Repair & Replacement Fund #110 – Consolidate to General Fund (\$276,879) no longer meets requirements of separate fund.
3. Building Management Fund #108 – Transfer of construction sales taxes to support City Hall maintenance (\$253,125).
4. Des Moines Creek Basin ILA Fund #111 - Reimbursement for treasury services provided by the City per Inter-local Agreement (\$2,004).
5. Surface Water Utility Fund #403 – Reimbursement of administrative costs and Maintenance Facility maintenance costs (\$335,898).
6. Equipment Rental Fund #501 – Reimbursement of administrative costs and Maintenance Facility maintenance costs (\$23,416).
7. Solid Waste & Environmental Services Fund #404 - Reimbursement of administrative costs (\$15,000).

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

Transportation CIP Fund #307

In 2017, one inter-fund transfer totaling \$2,213,000 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 Military Road South to South152nd 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 \$3,695 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 \$135,000 into the Des Moines Creek Basin Fund #111 for maintenance and operations (\$61,500) and to accumulate reserves (\$73,800) for future capital improvements, and 2) Building Management Fund #108 transferred \$64,161 to Municipal Capital Improvements Fund #301 for capital improvements at City Hall.

NOTE 16: RECEIVABLE AND PAYABLE BALANCES

A. Receivables

The receivable balances for the major funds at December 31, 2017 were as follows:

Fund	Taxes	Customer Accounts (Net) ¹ & Contracts	Special Assessments/ Interest & Penalties	Due from Other Gov	Total
Governmental Activities:					
General #001 ²	\$3,469,685	\$806,083	\$1,813	\$251,169	\$4,528,750
Street #102	921,748	36,204	0	96,261	1,054,213
Hotel/Motel Tax #107	212,299	7,000	0	0	219,299

Municipal Capital Imp. #301	142,773	6,808	0	216	149,796
Municipal Facilities CIP #306	0	0	0	0	0
Transportation CIP #307	0	3,288,096	0	0	3,288,096
Total Governmental Activities	\$4,746,505	\$4,144,191	\$1,813	\$347,645	\$9,240,153
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	\$105,690	\$0	\$82,699	\$188,389
Solid Waste & Environmental #404		37,853	0	22,404	60,257
Total Business-Type Activities	\$0	\$143,543	\$0	\$105,103	\$248,646

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, 2017 were as follows:

Fund	Accounts	Due to Other Gov	Deposits & Custodial	Interest & Other	Total
Governmental Activities:					
General #001 ¹	\$774,448	\$(51)	\$302,398	\$0	\$1,076,795
Street #102	238,159	0	466	0	238,625
Hotel/Motel Tax #107	563	0	0	0	563
Municipal Capital Imp. #301	53,714	0	0	0	53,714
Municipal Facilities CIP #306	5,409	0	0	0	5,409
Transportation CIP #307	38,600	0	0	0	38,600
Subtotal Governmental Activities	\$1,110,893	\$(51)	\$302,864	\$0	\$1,413,706
Reconciliation of balances in fund financial statements to government-wide financial statements:					
Internal service fund adjustment	28,653	0	0	0	28,653
Total Governmental Activities	\$1,139,545	\$(51)	\$302,864	\$0	\$1,442,359
Business-type Activities:					
Surface Water Utility #403	\$101,849	\$9,074	\$0	\$10,465	\$121,388
Solid Waste & Environmental #404	0	0	0	0	0
Total Business-type Activities	\$101,849	\$9,074	\$0	\$10,465	\$121,388

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

City of SeaTac, WA – Notes to the Financial Statements

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 Subsidy	Total	Auburn 31%	Burien 4%	Federal Way 18%	Renton 36%	SeaTac 3%	Tukwila 8%
2018	\$ 2,240,000	\$ 4,715,979	\$ (1,512,496)	\$ 5,443,483	\$ 1,687,480	\$ 217,739	\$ 979,827	\$ 1,959,654	\$ 163,304	\$ 435,479
2019	2,310,000	4,602,229	(1,478,317)	5,433,912	1,684,513	217,356	978,104	1,956,208	163,017	434,713
2020	2,385,000	4,484,854	(1,440,560)	5,429,294	1,683,081	217,172	977,273	1,954,546	162,879	434,344
2021	2,465,000	4,363,604	(1,401,577)	5,427,027	1,682,378	217,081	976,865	1,953,730	162,811	434,162
2022	2,590,000	4,233,250	(1,500,618)	5,322,632	1,650,016	212,905	958,074	1,916,148	159,679	425,811
2023-2027	14,485,000	18,727,798	(6,710,481)	26,502,317	8,215,718	1,060,093	4,770,417	9,540,834	795,070	2,120,185
2028-2032	17,725,000	13,590,870	(4,959,695)	26,356,175	8,170,414	1,054,247	4,744,112	9,488,223	790,685	2,108,494
2033-2037	21,855,000	7,082,263	(2,731,829)	26,205,434	8,123,685	1,048,217	4,716,978	9,433,956	786,163	2,096,435
2038-2039	10,115,000	676,321	(353,824)	10,437,497	3,235,624	417,500	1,878,749	3,757,499	313,125	835,000
Totals	\$ 76,170,000	\$ 62,477,168	\$ (22,089,397)	\$ 116,557,771	\$ 36,132,909	\$ 4,662,310	\$ 20,980,399	\$ 41,960,798	\$ 3,496,733	\$ 9,324,623

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, 2017 related to SCORE:

South Correctional Entity (SCORE)						
Member City	Percent of Equity	2016 Equity Balance	2017 Apportionment	2017 Equity Balance		
Auburn	31.00%	\$ 3,115,334	\$ 32,413	\$ 3,147,747		
Burien	3.00%	324,602	22,263	346,865		
Des Moines	2.00%	166,583	(3,248)	163,335		
Federal Way	23.00%	2,292,265	61,482	2,353,747		
Renton	30.00%	2,941,503	74,665	3,016,168		
SeaTac	4.00%	434,029	22,947	456,976		
Tukwila	7.00%	703,323	16,099	719,422		
Grand Totals	100.00%	\$ 9,977,639	\$ 226,621	\$ 10,204,260		

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 \$51,228 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)	\$176,024
Interest on net OPEB obligation	25,212
Adjustment to annual required contribution	<u>(56,690)</u>
Annual OPEB cost (expense)	144,546
Contributions made	<u>(51,228)</u>
Increase in net OPEB obligation	93,318
Net OPEB Obligation – Beginning of Year	<u>630,302</u>
Net OPEB Obligation – End of Year	<u>\$723,620</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 2017 and the two preceding fiscal years were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Contribution as a Percentage of Annual OPEB Cost</u>	<u>OPEB Obligation</u>
2015	\$155,810	41%	\$571,338
2016	\$125,114	53%	\$630,302
2017	\$144,546	35%	\$723,620

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 \$1,957,105 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 2017. 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.



**Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
For the Year Ended December 31, 2017**

	2017-2018 Biennial Budget Amounts		Actual Amount	Variance with Final Budget-
	Original	Final		Positive (Negative)
Revenues				
Taxes	\$ 58,664,000	\$ 59,664,000	\$ 33,644,877	\$ (26,019,123)
Licenses & permits	3,170,763	3,213,113	1,674,173	(1,538,940)
Intergovernmental & contributions	2,161,840	2,161,840	1,183,590	(978,250)
Charges for services	3,067,656	3,025,306	1,556,706	(1,468,600)
Fines and forfeitures	1,091,320	741,320	588,821	(152,499)
Investment & other earnings	105,000	105,000	144,178	39,178
Rent & leases	439,000	439,000	239,913	(199,087)
Miscellaneous	48,000	51,100	40,309	(10,791)
Total Revenues	68,747,579	69,400,679	39,072,567	(30,328,112)
Expenditures				
Current:				
Judicial	1,523,933	1,484,289	634,863	849,426
General Government	13,325,163	18,217,898	10,106,155	8,111,743
Public Safety	45,146,951	45,228,429	21,551,818	23,676,611
Transportation	369,169	366,102	125,447	240,655
Health & Human Services	1,651,994	1,688,839	826,903	861,936
Physical & Economic Environment	4,238,300	4,235,975	1,895,041	2,340,934
Culture & Recreation	6,599,881	6,832,756	3,357,515	3,475,241
Debt Service:				
Interest	-	-	-	-
Capital outlay	100,000	100,000	6,809	93,191
Total Expenditures	72,955,391	78,154,287	38,504,550	39,649,737
Excess (deficiency) of revenues over (under) expenditures	(4,207,812)	(8,753,608)	568,017	9,321,625
Other Financing Sources (Uses)				
Transfers in	4,227,766	4,446,675	1,321,012	(3,125,663)
Transfers out	(111,700)	(143,239)	-	143,239
Disposal & ins-capital assets	-	-	-	-
Total Other Fin Sources (Uses)	4,116,066	4,303,436	1,321,012	(2,982,424)
Net Change in Fund Balances	(91,746)	(4,450,172)	1,889,029	
Fund Balances-January 1, 2016	<u>16,317,380</u>	<u>17,471,668</u>	<u>17,471,668</u>	
Fund Balances-December 31, 2017	<u>\$ 16,225,634</u>	<u>\$ 13,021,496</u>	<u>\$ 19,360,697</u>	

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

City of SeaTac, WA – General Fund Reconciliation

**Reconciliation of General Fund Budgetary Basis Actual Amounts to
GAAP Basis Actual Amounts in the General Fund Statement of Revenues,
Expenditures and Changes in Fund Balance
For the Year Ended December 31, 2017**

	General Fund Budgetary Basis - Actual Amounts	Special Revenue Funds merged with General Fund as required by GASB Statement No. 54		
		Port of Seattle ILA	Transit Planning	Building Management
Revenues				
Taxes	\$ 33,644,877	\$ -	\$ -	\$ -
Licenses & permits	1,674,173	-	-	-
Intergovernmental	1,183,590	-	-	-
Charges for services	1,556,706	-	-	-
Fines & forfeitures	588,821	-	-	1,488
Investment & other earnings	144,178	(705)	2,830	4,430
Rent & leases	239,913	-	-	1,135,751
Miscellaneous	40,309	-	-	285,064
Total Revenues	39,072,567	(705)	2,830	1,426,733
Expenditures				
Current:				
Judicial	634,863	-	-	-
General Government	10,106,155	57,018	172	537,746
Public Safety	21,551,818	-	-	-
Transportation	125,447	-	-	-
Health & Human Services	826,903	-	-	-
Physical & Economic Env	1,895,041	-	-	-
Culture & Recreation	3,357,515	19,656	-	-
Debt service:				
Interest	-	-	-	-
Capital outlay	6,809	-	-	-
Total Expenditures	38,504,550	76,674	172	537,746
Excess (deficiency) of revenues over (under) expenditures	568,017	(77,379)	2,658	888,987
Other Financing Sources (Uses)				
Transfers in	1,321,012	-	-	-
Transfers out	-	-	-	(64,161)
Disposal & ins-capital assets	-	-	-	-
Total Other Fin Sources (Uses)	1,321,012	0	-	(64,161)
Net Change in Fund Balances	1,889,029	(77,379)	2,658	824,826
Fund Balances-Beginning*	17,471,668	1,548,629	263,986	2,475,463
Fund Balances-Ending	<u>\$ 19,360,697</u>	<u>\$ 1,471,250</u>	<u>\$ 266,644</u>	<u>\$ 3,300,289</u>

*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		Eliminate Transfers & Spec Item Adj	General Fund GAAP Basis - Actual Amounts	Net Change - Increase (Decrease)
	Facility Repair & Replacement				
Revenues					
Taxes	\$ -	\$ -	\$ -	\$ 33,644,877	\$ -
Licenses & permits	-	-	-	1,674,173	-
Intergovernmental	-	-	-	1,183,590	-
Charges for services	-	-	-	1,556,706	-
Fines & forfeitures	-	-	-	590,309	1,488
Investment & other earnings	1,206	-	-	151,939	7,761
Rent & leases	-	-	-	1,375,664	1,135,751
Miscellaneous	-	-	-	325,373	285,064
Total Revenues	1,206	-	-	40,502,631	1,430,064
Expenditures					
Current:					
Judicial	-	-	-	634,863	-
General Government	-	-	-	10,701,091	594,936
Public Safety	-	-	-	21,551,818	-
Transportation	-	-	-	125,447	-
Health & Human Services	-	-	-	826,903	-
Physical & Economic Env	-	-	-	1,895,041	-
Culture & Recreation	-	-	-	3,377,171	19,656
Debt service:					
Interest	-	-	-	-	-
Capital outlay	-	-	-	6,809	-
Total Expenditures	-	-	-	39,119,142	614,592
Excess (deficiency) of revenues over (under) expenditures	1,206	-	-	1,383,489	815,472
Other Financing Sources (Uses)					
Transfers in	-	-	-	1,321,012	-
Transfers out	-	-	-	(64,161)	(64,161)
Disposal & ins-capital assets	-	-	-	-	-
Total Other Fin Sources (Uses)	-	-	-	1,256,851	(64,161)
Net Change in Fund Balances	1,206	-	-	2,640,340	
Fund Balances-Beginning	380,821	-	-	17,963,022	
Fund Balances-Ending	<u>\$ 382,027</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 20,603,362</u>	

**Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
For the Year Ended December 31, 2017**

	2017-2018 Biennial Budget Amounts		Amounts*	Variance with
	Original	Final		Final Budget- Positive (Negative)
Revenues				
Taxes	\$ 16,056,970	\$ 16,056,970	\$ 9,324,537	\$ (6,732,433)
Licenses & permits	6,750	6,750	33,609	26,859
Intergovernmental	1,297,536	1,617,563	705,618	(911,945)
Charges for services	61,100	61,100	88,169	27,069
Investment & other earnings	13,000	13,000	101,028	88,028
Rents & leases	13,800	13,800	6,900	(6,900)
Miscellaneous	40,000	40,000	1,475	(38,525)
Total Revenues	17,489,156	17,809,183	10,261,336	(7,547,847)
Expenditures				
Current:				
Transportation	6,512,638	7,159,758	2,915,460	4,244,298
Physical & Economic Environment	108,511	188,511	47,288	141,223
Capital Outlay:				
Transportation	1,845,000	1,925,000	169,184	1,755,816
Total Expenditures	8,466,149	9,273,269	3,131,932	6,141,337
Excess (deficiency) of revenues over (under) expenditures	9,023,007	8,535,914	7,129,404	(1,406,510)
Other Financing Sources (Uses)				
Transfers in	59,213	59,213	-	(59,213)
Transfers out	(6,628,963)	(6,661,669)	(2,627,690)	4,033,979
Disposal & ins-capital assets	-	-	-	-
Total Other Fin Sources (Uses)	(6,569,750)	(6,602,456)	(2,627,690)	3,974,766
Net Change in Fund Balances	2,453,257	1,933,458	4,501,714	
Fund Balances-January 1, 2016	10,796,551	11,176,559	11,176,559	
Fund Balances-December 31, 2017	<u>\$ 13,249,808</u>	<u>\$ 13,110,017</u>	<u>\$ 15,678,273</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, 2017**

	2017-2018 Biennial Budget Amounts		Actual Amounts*	Variance with Final Budget- Positive (Negative)
	Original	Final		
Revenues				
Taxes	\$ 2,960,200	\$ 2,960,200	\$ 1,454,037	\$ (1,506,163)
Intergovernmental	6,000	6,000	30,020	24,020
Investment & other earnings	30,000	30,000	58,877	28,877
Miscellaneous	-	-	-	-
Total Revenues	<u>2,996,200</u>	<u>2,996,200</u>	<u>1,542,934</u>	<u>(1,453,267)</u>
Expenditures				
Current:				
Economic Environment	<u>2,334,334</u>	<u>2,288,051</u>	<u>1,048,110</u>	<u>1,239,941</u>
Total Expenditures	<u>2,334,334</u>	<u>2,288,051</u>	<u>1,048,110</u>	<u>1,239,941</u>
Excess (deficiency) of revenues over (under) expenditures	661,866	708,149	494,824	(213,325)
Other Financing Sources (Uses)	-	-	-	-
Total Other Fin Sources (Uses)	-	-	-	-
Net Change in Fund Balances	661,866	708,149	494,824	
Fund Balances-January 1, 2016	<u>7,496,913</u>	<u>7,315,221</u>	<u>7,315,221</u>	
Fund Balances-December 31, 2017	<u>\$ 8,158,779</u>	<u>\$ 8,023,370</u>	<u>\$ 7,810,045</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)
12/31/2007	\$0	\$1,325,508	\$1,325,508	0.0%	\$0	0.0%
12/31/2009	\$0	\$1,263,859	\$1,263,859	0.0%	\$0	0.0%
12/31/2011	\$0	\$1,863,614	\$1,863,614	0.0%	\$0	0.0%
12/31/2015	\$0	\$1,998,572	\$1,998,572	0.0%	\$0	0.0%
12/31/2017	\$0	\$1,957,102	\$1,957,102	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 June 30, 2017
Last 10 Fiscal Years*

	<u>2015</u>	<u>2016</u>	<u>2017</u>
<u>Employer's proportion of the net pension liability (asset)</u>	0.080985%	0.075408%	0.067707%
<u>Employer's proportionate share of the net pension liability (asset)</u>	\$ 4,236,269	\$ 4,049,765	\$ 3,212,750
TOTAL	\$ 4,236,269	\$ 4,049,765	\$ 3,212,750
<u>Employer's covered employee payroll</u>	\$ 9,180,716	\$ 8,925,589	\$ 8,445,108
<u>Employer's proportionate share of the net pension liability as a percentage of covered employee payroll</u>	46.14%	45.37%	38.04%
<u>Plan fiduciary net position as a percentage of the total pension liability</u>	59.10%	57.03%	61.24%

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 June 30, 2017
Last 10 Fiscal Years*

	<u>2015</u>	<u>2016</u>	<u>2017</u>
<u>Employer's proportion of the net pension liability (asset)</u>	0.102779%	0.095030%	0.085227%
<u>Employer's proportionate share of the net pension liability (asset)</u>	\$ 3,672,352	\$ 4,784,685	\$ 2,961,231
TOTAL	\$ 3,672,352	\$ 4,784,685	\$ 2,961,231
<u>Employer's covered employee payroll</u>	\$ 9,120,015	\$ 8,861,046	\$ 8,401,217
<u>Employer's proportionate share of the net pension liability as a percentage of covered employee payroll</u>	40.27%	54.00%	35.25%
<u>Plan fiduciary net position as a percentage of the total pension liability</u>	89.20%	85.82%	90.97%

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 June 30, 2017
Last 10 Fiscal Years*

	<u>2015</u>	<u>2016</u>	<u>2017</u>
<u>Employer's proportion of the net pension liability (asset)</u>	0.006607%	0.006678%	0.006773%
<u>Employer's proportionate share of the net pension liability (asset)</u>	\$ (79,629)	\$ (68,802)	\$ (102,761)
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%	0.00%
<u>Plan fiduciary net position as a percentage of the total pension liability</u>	127.36%	123.74%	135.96%

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, 2017
Last 10 Fiscal Years*

	<u>2015</u>	<u>2016</u>	<u>2017</u>
<u>Statutorily or contractually required contributions</u>	\$ 420,763	\$ 407,177	\$ 441,631
<u>Contributions in relation to the statutorily or contractually required contributions</u>	\$ (420,763)	\$ (407,177)	\$ (441,631)
<u>Contribution deficiency (excess)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<u>Covered employer payroll</u>	\$ 9,168,456	\$ 8,451,107	\$ 8,951,382
<u>Contributions as a percentage of covered employee payroll</u>	4.59%	4.82%	4.93%

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, 2017
Last 10 Fiscal Years*

	<u>2015</u>	<u>2016</u>	<u>2017</u>
<u>Statutorily or contractually required contributions</u>	\$ 531,326	\$ 622,456	\$ 612,700
<u>Contributions in relation to the statutorily or contractually required contributions</u>	\$ (531,326)	\$ (622,456)	\$ (612,700)
<u>Contribution deficiency (excess)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<u>Covered employer payroll</u>	\$ 9,104,496	\$ 8,385,928	\$ 8,907,491
<u>Contributions as a percentage of covered employee payroll</u>	5.84%	7.42%	6.88%

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, 2017
Last 10 Fiscal Years*

	<u>2015</u>	<u>2016</u>	<u>2017</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>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<u>Covered employer payroll</u>	\$ -	\$ -	\$ -
<u>Contributions as a percentage of covered employee payroll</u>	0.00%	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