



Office of the Washington State Auditor
Pat McCarthy

**Financial Statements and Federal Single Audit
Report**
City of SeaTac

For the period January 1, 2018 through December 31, 2018

Published September 23, 2019

Report No. 1024709





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

September 23, 2019

City Council
City of SeaTac
SeaTac, Washington

Report on Financial Statements and Federal Single Audit

Please find attached our report on the City of SeaTac's financial statements and compliance with federal laws and regulations.

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

Sincerely,

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

Pat McCarthy
State Auditor
Olympia, WA

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

City of SeaTac January 1, 2018 through December 31, 2018

SECTION I – SUMMARY OF AUDITOR’S RESULTS

The results of our audit of the City of SeaTac are summarized below in accordance with Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

Financial Statements

We issued an unmodified opinion on the fair presentation of 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 in accordance with accounting principles generally accepted in the United States of America (GAAP).

Internal Control over Financial Reporting:

- *Significant Deficiencies:* We reported no deficiencies in the design or operation of internal control over financial reporting that we consider to be significant deficiencies.
- *Material Weaknesses:* We identified no deficiencies that we consider to be material weaknesses.

We noted no instances of noncompliance that were material to the financial statements of the City.

Federal Awards

Internal Control over Major Programs:

- *Significant Deficiencies:* We reported no deficiencies in the design or operation of internal control over major federal programs that we consider to be significant deficiencies.
- *Material Weaknesses:* We identified no deficiencies that we consider to be material weaknesses.

We issued an unmodified opinion on the City's compliance with requirements applicable to its major federal program.

We reported no findings that are required to be disclosed in accordance with 2 CFR 200.516(a).

Identification of Major Federal Programs

The following program was selected as a major program in our audit of compliance in accordance with the Uniform Guidance.

<u>CFDA No.</u>	<u>Program or Cluster Title</u>
20.205	Highway Planning and Construction Cluster – Highway Planning and Construction

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by the Uniform Guidance, was \$750,000.

The City did not qualify as a low-risk auditee under the Uniform Guidance.

SECTION II – FINANCIAL STATEMENT FINDINGS

None reported.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.

**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, 2018 through December 31, 2018**

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, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated September 16, 2019. As discussed in Note 1 to the financial statements, during the year ended December 31, 2018, the City implemented Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

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

September 16, 2019

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR FEDERAL PROGRAM AND REPORT ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH THE UNIFORM GUIDANCE**

**City of SeaTac
January 1, 2018 through December 31, 2018**

City Council
City of SeaTac
SeaTac, Washington

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL
PROGRAM**

We have audited the compliance of the City of SeaTac, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended December 31, 2018. The City's major federal programs are identified in the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements

referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination on the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2018.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

Our consideration of internal control over compliance 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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

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

Pat McCarthy

State Auditor

Olympia, WA

September 16, 2019

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

City of SeaTac January 1, 2018 through December 31, 2018

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, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed on page 15.

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, 2018, 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.

Matters of Emphasis

As discussed in Note 1 to the financial statements, in 2018, the City adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

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 15 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of

management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). This schedule is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated September 16, 2019 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.

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

Pat McCarthy

State Auditor

Olympia, WA

September 16, 2019

FINANCIAL SECTION

City of SeaTac January 1, 2018 through December 31, 2018

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2018

BASIC FINANCIAL STATEMENTS

Statement of Net Position – Government Wide – 2018

Statement of Activities – Government Wide – 2018

Balance Sheet – Governmental Funds – 2018

Reconciliation of Fund Balances of Governmental Funds to the Net Position of
Governmental Activities – 2018

Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental
Funds – 2018

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund
Balances of Governmental Funds to the Statement of Activities – 2018

Statement of Net Position – Proprietary Funds – 2018

Statement of Revenues, Expenses and Changes in Fund Net Position – Proprietary Funds
– 2018

Statement of Cash Flows – Proprietary Funds – 2018

Notes to the Financial Statements – 2018

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual
– General Fund – 2018

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 – 2018

Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual
– Street Fund – 2018

Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual
– Hotel/Motel Tax Fund – 2018

Schedule of Proportionate Share of the Net Pension Liability – PERS 1, PERS 2/3,
LEOFF 1 – 2018

Schedule of Employer Contributions – PERS 1, PERS 2/3, LEOFF 1 – 2018

Schedule of Changes in Total OPEB Liability and Related Ratios – LEOFF 1 Retirees –
2018

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Expenditures of Federal Awards – 2018

Notes to the Schedule of Expenditures of Federal Awards – 2018

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, 2018. Since the MD&A was designed to focus on the activities, resulting changes, and currently known facts for the year 2018, 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, 2018, total net position for the City was \$526 million. Of this amount, \$438 million or 83% 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 \$42 million or 8% 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 \$45.6 million or 9% was classified as unrestricted and available for general City operations.
- Governmental funds ended the year with \$84.8 million in total ending fund balance on the modified accrual basis of accounting. This is an increase of \$18.8 million or 28% over 2017, which ended the year with a \$66 million ending fund balance. Growth at SeaTac Airport, including increased passengers and cargo, and a rise in economic development have combine to produce a favorable ending fund balance.
- The Governmental Accounting Standards Board (GASB) issued Statement 75 – Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, in 2015 for implementation to be effective with the end of year 2018. This Statement addresses accounting and financial reporting by governments that provide Other Post-Employment Benefits (OPEB) to their employees. The requirements of this Statement improves information provided by government employers about financial support for OPEB and is a result of a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision –useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. The City's Net OPEB Obligation is reported as \$1.9 million in Governmental Activities.
- A new Interlocal agreement with the Port of Seattle, worth \$29 million over the next 10 years, was signed in February 2018.
- With the completion the new principal arterial road corridor between South 188th Street in SeaTac and South 216th Street in Des Moines, access to businesses in the Des Moines Creek Business Park along 24th Ave South has improved and is attracting new development. The arterial also brings improved south access to the airport. Alaska Airlines is expanding their corporate campus with the new Copper River HUB Building and Trammell Crow is

completing a 460,000 square foot light industrial facility, IAC Commerce at SeaTac, that will provide 400 to 500 fulltime, family wage jobs. 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.

- Phase One of the Business Synergy Program laid the foundation for the analysis of the extensive business ecosystem in the City. With the objective of facilitating in-city collaboration and economic development, valuable connections and new and expanded partnerships of local businesses have been created. Phase two will further increase local business interaction, and recapture spending within the City, augmenting the tax base while diversifying the economy.

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 2018, 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 2018, 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.

City of SeaTac, WA – Management’s Discussion and Analysis

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.

	Governmental Activities		Business Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Assets:						
Current & other assets	\$ 95,392,756	\$ 75,549,050	\$ 8,795,155	\$ 7,011,294	\$ 104,187,911	\$ 82,560,344
Net pension asset	124,253	102,761	-	-	124,253	102,761
Capital assets, net	413,940,960	413,571,822	24,064,629	24,726,034	438,005,589	438,297,856
Total Assets	509,457,969	489,223,633	32,859,784	31,737,328	542,317,753	520,960,961
Deferred Outflows	1,017,084	847,568	67,966	57,883	1,085,050	905,451
Liabilities:						
Long-term liabilities	2,966,204	3,693,832	62,213	57,378	3,028,417	3,751,210
Net pension liability	6,528,135	5,920,006	132,559	253,975	6,660,694	6,173,981
Other liabilities	5,041,733	1,952,317	29,110	124,408	5,070,843	2,076,725
Total liabilities	14,536,072	11,566,155	223,882	435,761	14,759,954	12,001,916
Deferred Inflows	2,047,711	1,459,925	150,746	98,222	2,198,457	1,558,147
Net Position:						
Net inv in capital assets	413,940,960	413,571,822	24,064,629	24,726,035	438,005,589	438,297,857
Restricted	42,756,414	32,663,251	-	-	42,756,414	32,663,251
Unrestricted	37,193,895	30,810,047	8,488,494	6,535,194	45,682,389	37,345,241
Total Net Position	\$ 493,891,269	\$ 477,045,120	\$ 32,553,123	\$ 31,261,229	\$ 526,444,392	\$ 508,306,349

In 2018, the City's total net position increased by \$18 million. Net investment in capital decreased by \$292 thousand. The City spent approximately \$12.6 million on capital assets in 2018 with the bulk of the expenses going toward transportation and park improvements. The City's total restricted net position increased by \$10 million and unrestricted net position increased by \$8.3 million.

The City's net position for governmental activities includes \$42.7 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 \$37.1 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 \$8.5 million. \$8.1 million can be used for general surface water utility purposes including capital projects, if desired and \$392,057 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

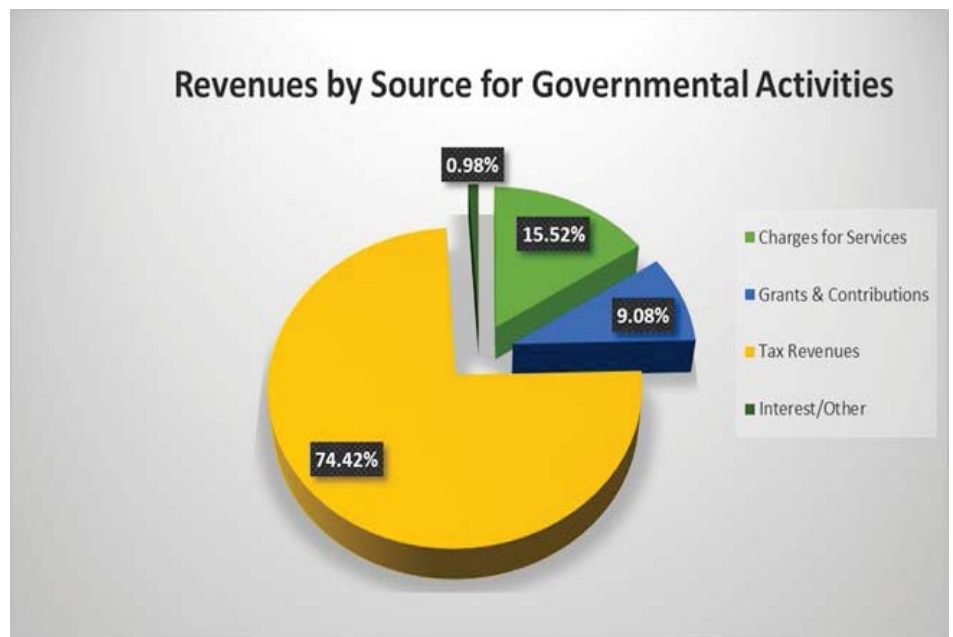
Revenues:	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Program Revenues:						
Charges for services	\$ 11,315,202	\$ 6,063,305	\$ 4,337,782	\$ 3,196,839	\$ 15,652,984	\$ 9,260,144
Operating grants & contrib	3,724,132	2,126,882	120,140	142,135	3,844,272	2,269,017
Capital grants & contrib	2,657,612	4,522,064	-	-	2,657,612	4,522,064
General Revenues:						
Property taxes	16,882,125	15,479,941	-	-	16,882,125	15,479,941
Sales taxes	18,318,741	15,420,148	-	-	18,318,741	15,420,148
Hotel/motel taxes	1,868,327	1,800,033	-	-	1,868,327	1,800,033
Parking taxes	10,297,959	9,324,537	-	-	10,297,959	9,324,537
Gambling taxes	529,601	582,399	-	-	529,601	582,399
Misc Nonoperating	4,424,779	3,812,350	-	5,273	4,424,779	3,817,623
Investment interest	694,121	310,883	106,911	54,153	801,032	365,036
Misc revenues	-	-	17,081	-	17,081	-
Gains on asset sales	57,257	691,521	-	-	57,257	691,521
Total Revenues	70,769,856	60,134,063	4,581,914	3,398,400	75,351,770	63,532,463

City of SeaTac, WA – Management’s Discussion and Analysis

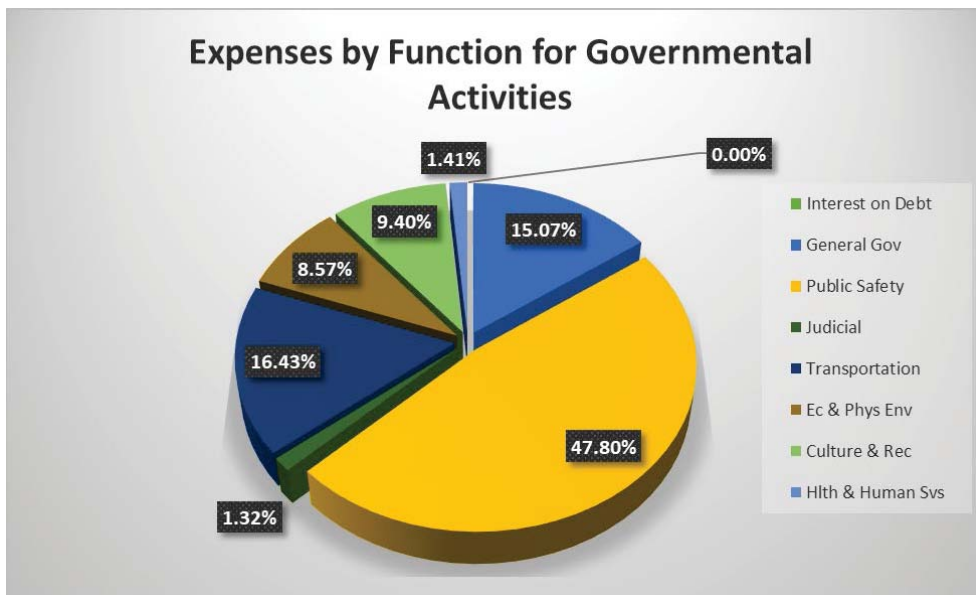
Expenses:	2018	2017	2018	2017	2018	2017
Judicial	649,043	640,249	-	-	649,043	640,249
General Government	7,019,703	10,278,105	-	-	7,019,703	10,278,105
Public Safety	23,548,361	22,797,465	-	-	23,548,361	22,797,465
Transportation	8,093,845	7,188,240	-	-	8,093,845	7,188,240
Health & Human Services	693,661	830,219	-	-	693,661	830,219
Physical & Economic Environment	4,222,464	3,984,274	2,779,974	2,503,195	7,002,438	6,487,469
Culture & Recreation	4,631,156	4,153,513	-	-	4,631,156	4,153,513
Interest on long-term debt	1,821	14,916	-	-	1,821	14,916
Total Expenses	48,860,054	49,886,982	2,779,974	2,503,195	51,640,028	52,390,177
Inc (Dec) in Net Position Before						
Transfers & Special Items	21,909,802	10,247,081	1,801,940	895,205	23,711,742	11,142,286
Transfers	459,069	419,873	(519,120)	(482,503)	(60,051)	(62,630)
Inc (Dec) in Net Position	22,368,871	10,666,954	1,282,820	412,702	23,651,691	11,079,656
Prior Year Adjustments	(5,499,962)	-	9,074	(56,947)	(5,490,888)	(56,947)
Net Position-Beg (as restated)	471,522,399	466,378,166	31,270,303	30,848,527	502,792,702	497,226,693
Net Position-Ending	\$ 493,891,270	\$ 477,045,120	\$ 32,553,123	\$ 31,261,229	\$ 526,444,393	\$ 508,306,349

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 \$6.3 million in grant revenues for capital purposes. Capital grants are down \$0.3 million from the prior year; transportation project start dates and actual expenses incurred impact the timing of when actual grant revenues are received. In addition to capital grants, operating grants increased by \$1.6 million over 2017.

In 2018, tax revenues continue to rise for most tax categories ranging from a 9% increase in property taxes to an 18.8% 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 3.8% and parking taxes saw a 10% increase. The Port of Seattle’s “2018 Airport Activity Highlights” reported that aircraft operations increased 14% over the last five years, along with passenger levels which increased 6.2% in 2018. Additionally, the Port of Seattle reported that air cargo increased by 1.5% from 2017 levels. The Port of Seattle’s SeaTac Airport is the eighth busiest airport in the nation, the 15th busiest in U.S. commercial services and is the 18th 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 steady lodging tax revenues, new development and redevelopment for both commercial and residential purposes, decreasing commercial vacancy rates and steady permit fees.



For governmental activities, total expenses decreased \$1 million or 2.1% from 2017. Five out of the eight program areas in governmental activities had expense increases in 2018 ranging from 1.4% in Judicial Services to 11.5% in Culture and Recreation; three programs saw decreased expenses in 2018 ranging from 87.8% (interest on long-term debt) to a 16% decrease in the spending for Health and Human Services.



General Government related expenses decreased 32% because of a \$4.25 million legal settlement in October 2017. Removing the settlement payment from the general government program results in an increase of general government spending of 15.9%.

Public Safety expenses experienced an increase of \$750 thousand or 3.3% over 2017. This is due solely to an increase in Police, Fire, Jail, and Animal Control contracts.

Business-type Activities: Net position increased by \$1.3 million in 2018 as compared to a \$339 thousand increase in 2017. The creation of the Solid Waste Fund required a direct decrease in net position to account for the beginning net pension liability in 2017. In 2018, overall net position rose due to an increase in surface water utility rates (36%) and investment interest (97%) and a 9% increase in spending.

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 2018, the City's combined ending governmental fund balance was \$84.8 million versus the 2017 ending fund balance of \$66 million. Included in the 2018 ending fund balance is \$568 thousand in non-spendable prepayments, \$42.6 million in restricted fund balances (i.e. transportation, tourism, capital projects, etc.) and \$7.5 million in fund balances which has been assigned to other purposes (i.e. equipment replacement, capital projects, etc.).

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 2017 and 2018, property taxes recorded into the General Fund equaled approximately \$15.4 million and \$16.8 million, respectively. The property tax levy continues to increase as result of new development, a promising indicator of an increasing property tax base.

In 2018, sales taxes recorded into the General Fund were \$16.1 million compared to \$15.4 million in 2017. 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 increases sales tax revenue and other related taxes like lodging taxes.

The fund balance of the General Fund at the end of 2018 was \$29 million, which is \$4.6 million increase over 2017. 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 three funds and their respective fund balance additions to the General Fund are as follows: Port of Seattle ILA Fund - \$1.8 million, Transit Planning - \$367 thousand, and Building Management Fund - \$3.4 million for a total of \$5.6 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 represents no increase from 2017. The Street Fund continues to actively maintain the overlay program (\$3 million) and transferred \$5 million to the Transportation CIP fund in 2018.

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 2018 for this Fund was \$8.6 million. Lodging tax revenues have been on a steady rise over the last few years and 2018 brought in a record amount of lodging tax revenue at \$1.86 million. 2014 marked the beginning of the Seattle Southside Tourism Promotion Area (or TPA) in partnership with the cities of Des Moines and Tukwila. As part of this new initiative, SeaTac chartered the first ever of its kind public development authority to administer the TPA funds, which were \$3.5 million in 2018. 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 2018, the revenue source for this Fund was real estate excise tax and sales tax from Port of Seattle projects. At the end of 2018, the fund balance in the Municipal Capital Improvement Fund was \$8.4 million.

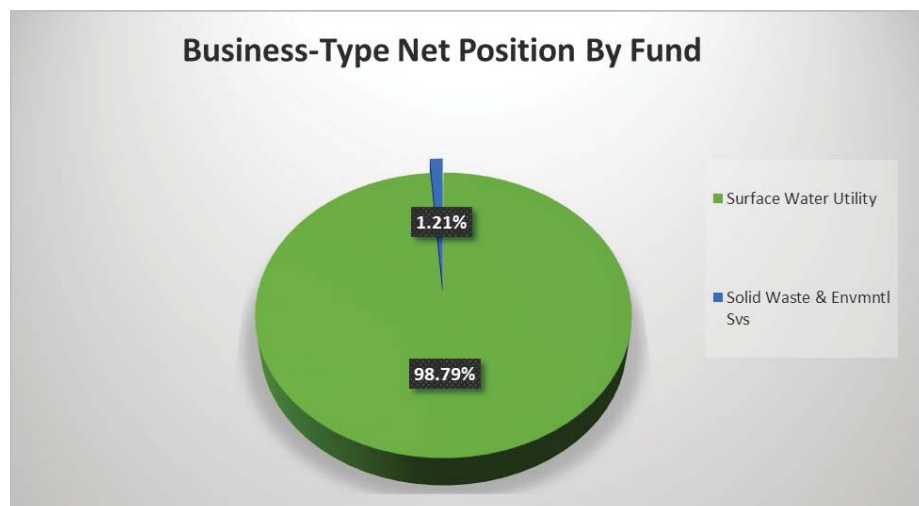
The Facility Construction Capital Improvement Fund is a capital projects fund whose purpose is to account for the expenditures related to major municipal capital projects including the purchase of land and the construction or major renovation of buildings. Although this Fund did not meet the GASB Statement 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 2018, the revenue source for this Fund was investment earnings. At the end of 2018, 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 2018, the major revenue source for this Fund were project grants and reimbursements from other agencies for services. The Street Fund transferred \$5 million into this Fund to pay for several projects, including a sidewalk project and a roadway project.

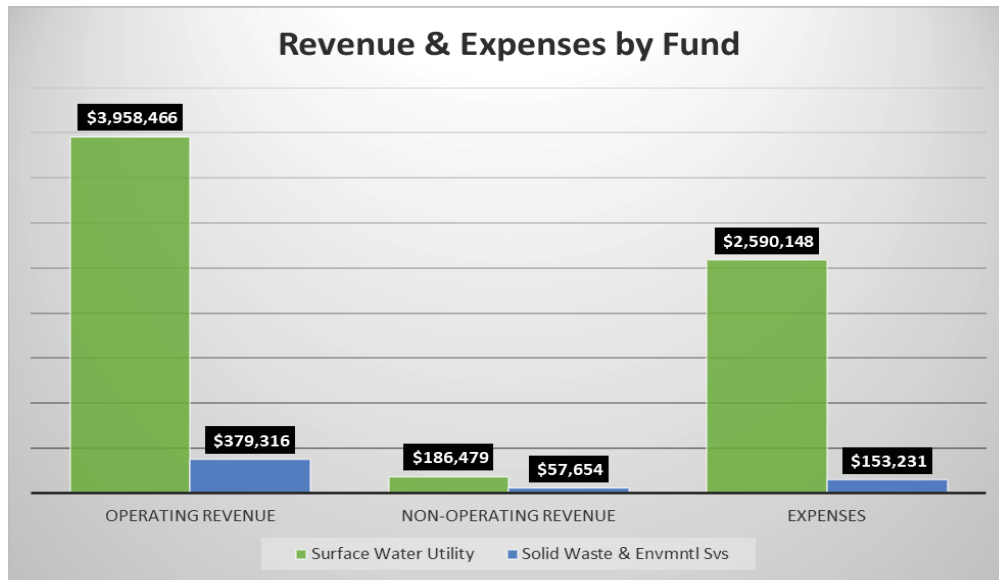
Business-Type Funds

- 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.



On the government-wide Statement of Net Position for business-type activities, the ending net position balance for proprietary funds was \$32.5 million and of this amount, \$8.4 million or 26% was unrestricted. The other \$24.1 million or 74% 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 2018.

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



GENERAL FUND BUDGETARY HIGHLIGHTS

On a budgetary basis, the General Fund finished 2018 with \$29 million in ending fund balance reserves. The original ending fund balance amount budgeted for 2018 was \$19 million. The actual ending fund balance exceeded the original budget by \$10 million. Actual revenues (excluding transfers in) for the biennium were \$44.6 million or \$9.1 million over the original estimate. The area with the highest positive variance was taxes. Assessed valuation in the City has continued to rise, since hitting a low in 2013, creating a budget excess in this area of \$1 million, sales tax collected was \$4.6 million over budget, and leasehold tax was \$1 million greater than anticipated.

The General Fund’s actual expenditures (excluding transfers out) were \$36.2 million for 2018. The original 2018 appropriation was \$36.9 million while the final budget was \$38.2 million. Actual appropriations were \$36.2 million resulting in a final budget savings of almost \$2 million from targeted department efficiencies and program delivery savings.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

At the end of 2018, the City had \$413.9 million (net of accumulated depreciation) in governmental activities capital assets, including one internal service fund, and \$24 million (net) in business-type activities. Total internal service fund capital assets (net) were just under \$1.7 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 2018:

City of SeaTac's Capital Assets						
Capital Assets:	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Land	\$ 322,166,669	\$ 321,450,239	\$ -	\$ -	\$ 322,166,669	\$ 321,450,239
Intangible Assets-Easements	127,978	127,978	35,442	35,442	\$ 163,420	\$ 163,420
Constr in Progress (CIP)	9,701,860	2,001,547	-	218,535	\$ 9,701,860	\$ 2,220,082
Buildings/Building Impr	46,234,688	46,647,361	228,560	228,560	\$ 46,463,248	\$ 46,875,921
Other Improvements	13,614,467	13,478,727	33,129,702	32,911,167	\$ 46,744,169	\$ 46,389,894
Infrastructure	114,002,707	98,458,034	-	-	\$ 114,002,707	\$ 98,458,034
Equipment/Vehicles	1,856,013	2,122,175	12,918	12,918	\$ 1,868,931	\$ 2,135,093
Equipment/Vehicles-Eq Rental	4,006,900	3,963,193	-	-	\$ 4,006,900	\$ 3,963,193
					\$ -	\$ -
Intangible Assets-Software	615,454	615,454	156,634	156,634	\$ 772,088	\$ 772,088
					\$ -	\$ -
Less: Depreciation	(98,385,778)	(93,292,885)	(9,498,627)	(8,837,221)	\$ (107,884,405)	\$ (102,130,106)
Total Capital Assets (Net)	\$ 413,940,958	\$ 395,571,823	\$ 24,064,629	\$ 24,726,035	\$ 438,005,587	\$ 420,297,858

In 2018, the largest change in capital assets occurred in Infrastructure and Construction in Progress for governmental activities. Completion of the Connecting 28th/24th Avenue South project caused the Infrastructure balance to increase. Five projects were added to the Construction in Progress balance causing the increase. Two Recreation projects are estimated to be completed in 2019 and three Transportation projects are slated for completion in 2019 and/or 2020.

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 2018, 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 2017 and 2018 by type:

City of SeaTac's Outstanding Debt by Type						
	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
General Obligation Bonds	\$ -	\$ 330,000	\$ -	\$ -	\$ -	\$ 330,000
Special Obligation Bonds	2,217,900	2,285,100	-	-	2,217,900	2,285,100
Total	\$ 2,217,900	\$ 2,615,100	\$ -	\$ -	\$ 2,217,900	\$ 2,615,100

General Obligation Debt

According to Washington State law, the City's debt capacity for general government purposes is limited to 4% or \$245.4 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 \$92 million. At the end of 2018, the City's assessed valuation was \$6,136,524,621, which is a 14% increase from 2017. The 2018 assessed valuation is used to calculate taxes to be collected in 2019. 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 2018. 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 \$550 million of the City’s assessed valuation.

Revenue Debt

At the end of 2018, 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 2018, 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 2018 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 are now being realized along the 24th Ave S corridor with the Alaska Airlines Copper River HUB Building and Trammel Crow’s IAC Commerce facility leading the way. Building permit applications have increase over 300% in 2018 and License and permit fees increased 21.4% over 2017.

SeaTac Airport continues work on the International Arrivals Facility providing an increase in construction sales tax and added 50 new restaurants and shops in 2018 with plans for an additional 10,000 square feet of new mezzanine space to open in mid-2019.

Property Taxes are 37.5% of governmental revenues. Property tax revenue increased 8.8% from 2017 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 \$13 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 biennium with an ending fund balance of \$29 million. The growth in revenue substantiates City has rebounded from the Great Recession and has exceeded the General Fund target fund balance the last five years.

	2011-2012 Final	2013-2014 Final	2015-2016 Final	2017-2018 Final
Budget:				
Budgeted Revenues	\$ 54,488,795	\$ 59,545,908	\$ 68,104,144	\$ 69,288,979
Budgeted Expenditures	\$ 59,328,665	\$ 65,450,693	\$ 70,168,679	\$ 73,792,587
Budgeted Difference	\$ (4,839,870)	\$ (5,904,785)	\$ (2,064,535)	\$ (4,503,608)
Actual:				
Actual Revenues	\$ 55,608,879	\$ 59,181,562	\$ 72,950,304	\$ 83,718,092
Actual Expenditures	\$ 57,336,155	\$ 64,989,397	\$ 68,185,724	\$ 74,653,435
Actual Difference	\$ (1,727,276)	\$ (5,807,835)	\$ 4,764,580	\$ 9,064,657

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

REQUESTS FOR INFORMATION

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



Statement of Net Position
December 31, 2018

	Governmental Activities	Business-type Activities	Total	SSRTA Comp Unit
Assets				
Cash & cash equivalents	\$ 74,366,543	\$ 8,411,140	\$ 82,777,683	\$ 3,101,572
Investments	9,978,989	-	9,978,989	-
Receivables (net)				
Taxes	6,063,310	-	6,063,310	-
Customer accounts & contracts	1,004,710	107,045	1,111,755	10,000
Due from other governments	292,623	87,992	380,615	610,360
Inventory	-	-	-	17,189
Internal balances	(188,835)	188,835	-	-
Prepaid items	568,926	143	569,069	83,020
Investment in joint venture	3,306,490	-	3,306,490	-
Capital assets not being depreciated:				
Land	322,166,669	-	322,166,669	-
Intangible assets - Easements	127,978	35,442	163,420	-
Intangible assets - Trademarks	-	-	-	9,947
Construction in progress	9,701,859	-	9,701,859	-
Capital assets, net of accum deprec (Note 6):				
Buildings	24,793,414	156,604	24,950,018	-
Improvements other than buildings	5,569,267	23,844,164	29,413,431	-
Equipment, vehicles & software	2,024,390	28,419	2,052,809	291,937
Infrastructure	49,557,383	-	49,557,383	-
Net Pension Asset	124,253	-	124,253	-
Total Assets	\$ 509,457,969	\$ 32,859,784	\$ 542,317,753	\$ 4,124,025
Deferred Outflows of Resources				
Deferred Outflow of Resources - Pension	994,122	67,966	1,062,088	336,115
Deferred Outflow of Resources - OPEB	22,962	-	22,962	-
Total Assets & Deferred Outflows	510,475,053	32,927,750	543,402,803	4,460,140
Liabilities				
Accounts payable & accrued expenses	4,456,334	16,122	4,472,456	198,470
Due to other governments	122,389	9,713	132,102	-
Custodial accounts & other current liab	326,593	-	326,593	-
Unearned revenue	24,086	-	24,086	-
Noncurrent liabilities (Note 10):				
Due within one year	112,332	3,274	115,606	56,403
Due in more than one year	2,966,204	62,213	3,028,417	528,640
Net Pension Obligation	4,559,756	132,559	4,692,315	-
Net OPEB Obligation	1,968,379	-	1,968,379	-
Total Liabilities	\$ 14,536,073	\$ 223,881	\$ 14,759,954	\$ 783,513
Deferred Inflows of Resources				
Deferred Inflow of Resources - Pensions	2,047,711	150,746	2,198,457	241,854
Total Liabilities & Deferred Inflows	16,583,784	374,627	16,958,411	1,025,367
Net Position				
Investment in capital assets	413,940,960	24,064,629	438,005,589	301,884
Restricted for:				
Tourism promotion & facilities	8,605,228	-	8,605,228	-
Debt service	393,031	-	393,031	-
Capital projects & equipment	3,171,306	-	3,171,306	-
Transportation	27,197,184	-	27,197,184	-
Des Moines Creek Basin ILA projects	3,265,412	-	3,265,412	-
Net Pension Asset	124,253	-	124,253	-
Unrestricted	37,193,895	8,488,494	45,682,389	3,132,889
Total Net Position	\$ 493,891,269	\$ 32,553,123	\$ 526,444,392	\$ 3,434,773

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

**Statement of Activities
For the Year Ended December 31, 2018**

	Expenses	Program Revenues		
		Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions
Functions/Programs				
Governmental Activities:				
Judicial	\$ 649,043	\$ 264,352	\$ 5,580	\$ -
General Government	7,421,291	1,630,687	429,154	6,039
Public Safety	23,548,361	460,194	2,047,300	-
Transportation	8,093,845	1,670,338	953,882	2,282,117
Health & Human Services	693,661	-	16,183	-
Physical & Economic Environment	4,222,464	5,937,313	266,525	300,000
Culture & Recreation	4,631,156	1,030,287	5,507	69,456
Interest on long-term debt	1,821	-	-	-
Total Governmental Activities	49,261,643	10,993,171	3,724,132	2,657,612
Business-type Activities:				
Solid Waste & Environmental	153,231	379,316	51,569	-
Surface Water Utilities	2,626,743	3,958,466	68,571	-
Total Business-type Activities	2,779,974	4,337,782	120,140	-
Component Unit Activities				
Seattle Southside Regional Tourism Authorit	4,646,629	72,558	1,032,121	-
Total Component Unit Activites	4,646,629	72,558	1,032,121	-
Total Government	\$ 56,688,246	\$ 15,403,511	\$ 4,876,393	\$ 2,657,612

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

	Net (Expense) Revenue & Changes in Net Position			
	Governmental Activities	Business-type Activities	Total	SSRTA Comp Unit
Functions/Programs				
Governmental Activities:				
Judicial	\$ (379,111)	\$ -	\$ (379,111)	\$ -
General Government	(5,355,411)	-	(5,355,411)	-
Public Safety	(21,040,867)	-	(21,040,867)	-
Transportation	(3,187,508)	-	(3,187,508)	-
Health & Human Services	(677,478)	-	(677,478)	-
Physical & Economic Environment	2,281,374	-	2,281,374	-
Culture & Recreation	(3,525,906)	-	(3,525,906)	-
Interest on long-term debt	(1,821)	-	(1,821)	-
Total Governmental Activities	(31,886,728)	-	(31,886,728)	-
Business-type Activities:				
Garbage & Solid Waste	-	277,653	277,653	-
Surface Water Utilities	-	1,400,294	1,400,294	-
Total Business-type Activities	-	1,677,947	1,677,947	-
Component Unit Activities				
Seattle Southside Regional Tourism Authorit	-	-	-	(3,541,950)
Total Component Unit Activities	-	-	-	(3,541,950)
Total Government	\$ (31,886,728)	\$ 1,677,947	\$ (30,208,781)	\$ (3,541,950)
General Revenues				
Property taxes	16,882,125	-	16,882,125	-
Retail sales & use taxes	18,318,741	-	18,318,741	-
Hotel/Motel taxes	1,868,327	-	1,868,327	-
Parking taxes	10,297,959	-	10,297,959	-
Gambling taxes	529,601	-	529,601	-
Excise taxes	4,424,779	-	4,424,779	-
Misc Nonoperating	-	17,081	-	3,793,453
Unrestricted investment earnings	694,121	106,912	801,033	52,106
Gain on sale of capital assets	57,257	-	57,257	-
Total General Revenues	53,072,910	123,993	53,179,822	3,845,559
Transfers	459,069	(519,120)	(60,052)	-
Total General Revenues & Transfers	53,531,979	(395,127)	53,119,771	3,845,559
Change in Net Position	21,645,251	1,282,820	22,928,071	303,609
Net Position-Beg (as prev reported)	477,022,361	31,261,229	508,283,590	3,131,164
Prior Year Adjustments	(3,560,419)	9,074	(3,551,345)	-
Net Position-Beginning	473,461,942	31,270,303	504,732,245	3,131,164
Direct Adj for GASB 75	(1,215,923)	-	(1,215,923)	-
Net Position-Ending	\$ 493,891,270	\$ 32,553,123	\$ 526,444,393	\$ 3,434,773

Balance Sheet
December 31, 2018

	Special Revenue			Capital Improvement
	General	Street	Hotel/Motel Tax	Municipal CIP
Assets				
<i>Current Assets:</i>				
Cash & cash equivalents	\$ 27,026,731	\$ 14,957,263	\$ 8,393,206	\$ 3,538,454
Investments	\$ 6,958,313	\$ -	-	2,524,647
Receivables (net of allow- ance for uncollectibles):				
Taxes	\$ 3,411,096	\$ 933,198	226,324	1,492,694
Customer accounts & contracts	\$ 834,727	\$ 32,656	-	-
Due from other governments	\$ 202,174	\$ 90,449	-	-
Prepaid items	\$ 567,797	\$ 809	320	-
Total Assets	<u>\$ 39,000,838</u>	<u>\$ 16,014,375</u>	<u>\$ 8,619,850</u>	<u>\$ 7,555,795</u>
Liabilities				
<i>Current Liabilities:</i>				
Accounts & other payable	3,053,717	417,286	14,622	272,572
Due to other governments	122,389	-	-	-
Custodial & deposits payable	326,060	533	-	-
Unearned revenue	24,086	-	-	-
Total Liabilities	<u>3,526,252</u>	<u>417,819</u>	<u>14,622</u>	<u>272,572</u>
Deferred Inflows of Resources				
Unavail revenue-grants/interlocal	90,247	-	-	
Unavail revenue-property taxes	155,391	-	-	
Unavail revenue-court fines	424,793	-	-	
Unavail revenue-leases/permits	78,893	7,092	-	
Unavail revenue-sp assess/int/pen	-	-	-	400
Total Def Inflows of Resources	<u>749,324</u>	<u>7,092</u>	<u>-</u>	<u>400</u>
Fund Balances (Deficits)				
Nonspendable:				
Prepayments	567,797	809	320	-
Restricted:				
Transportation	-	15,588,655	-	-
Tourism promotion & facilities	-	-	8,604,908	-
Des Moines Creek Basin ILA	-	-	-	-
Capital projects & equipment	-	-	-	2,371,306
Debt service	-	-	-	-
Assigned:				
Light Rail Station projects	-	-	-	-
Capital projects & equipment	-	-	-	4,911,517
Unassigned	34,157,465	-	-	-
Total Fund Balances	<u>34,725,262</u>	<u>15,589,464</u>	<u>8,605,228</u>	<u>7,282,823</u>
Total Liab, Def Inflows of Res & Fund Balances (Deficits)	<u>\$ 39,000,838</u>	<u>\$ 16,014,375</u>	<u>\$ 8,619,850</u>	<u>\$ 7,555,795</u>

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

Governmental Funds - City of SeaTac, WA

	Capital Improvement		Other Governmental Funds	Total Governmental Funds
	Facility Construction CIP	Transportation CIP		
Assets				
<i>Current Assets:</i>				
Cash & cash equivalents	\$ 1,504,736	\$ 12,218,588	\$ 5,568,783	\$ 73,207,762
Investments	-	-	-	9,482,961
Receivables (net of allow- ance for uncollectibles):				
Taxes	-	-	-	6,063,311
Customer accounts & contracts	-	137,285	5	1,004,673
Due from other governments	-	-	-	292,623
Prepaid items	-	-	-	568,926
Total Assets	\$ 1,504,736	\$ 12,355,873	\$ 5,568,788	\$ 90,620,256
Liabilities				
<i>Current Liabilities:</i>				
Accounts & other payable	-	681,434	2,821	4,442,453
Due to other governments	-	-	-	122,389
Custodial & deposits payable	-	-	-	326,593
Unearned revenue	-	-	-	24,086
Total Liabilities	-	681,434	2,821	4,915,521
Deferred Inflows of Resources				
Unavail revenue-grants/interlocal	-	65,802	-	156,049
Unavail revenue-property taxes	-	-	-	155,391
Unavail revenue-court fines	-	-	-	424,793
Unavail revenue-leases/permits	-	917	-	86,902
Unavail revenue-sp assess/int/per	-	-	-	400
Total Def Inflows of Resources	-	66,719	-	823,535
Fund Balances (Deficits)				
Nonspendable:				
Prepayments	-	-	-	568,926
Restricted:				
Transportation	-	11,607,720	-	27,196,375
Tourism promotion & facilities	-	-	-	8,604,908
Des Moines Creek Basin ILA	-	-	3,265,412	3,265,412
Capital projects & equipment	-	-	800,000	3,171,306
Debt service	-	-	393,031	393,031
Assigned:				
Light Rail Station projects	-	-	1,107,524	1,107,524
Capital projects & equipment	1,504,736	-	-	6,416,253
Unassigned	-	-	-	34,157,465
Total Fund Balances	1,504,736	11,607,720	5,565,967	84,881,200
Total Liab, Def Inflows of Res & Fund Balances (Deficits)	\$ 1,504,736	\$ 12,355,873	\$ 5,568,788	\$ 90,620,256

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

**Reconciliation of Fund Balances of Governmental Funds
to the Net Position of Governmental Activities
December 31, 2018**

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

Governmental funds total fund balance on December 31, 2018 (as shown on the Balance Sheet for Governmental Funds)	\$	84,881,200
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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	\$	322,166,669	
Intangibles - easements		127,978	
Construction in progress		9,701,859	
Buildings & structures		46,234,688	
Other improvements		13,614,467	
Infrastructure		114,002,708	
Equipment		1,856,013	
Intangibles - software		615,454	
Less: accumulated depreciation		<u>(96,030,998)</u>	412,288,837

Investments in joint ventures are not a financial resource and, therefore, are not reported in the governmental funds.		3,306,490
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The net pension asset is not an available resource and, therefore, is not reported in the governmental funds.		124,253
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Other long-term assets are not available to pay current period expenditures and, therefore, are reported as unavailable revenue in the governmental funds.		823,535
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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 and Deferred OPEB Outflow.		1,017,084
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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	\$	(2,217,900)	
Premium on bond issue (amortized over life of debt)		-	
Pension Obligation		(4,559,756)	
Deferred Pension Inflows		(2,047,711)	
Other Post Employment Benefits Obligation		(1,968,379)	
Compensated absences payable		<u>(855,990)</u>	(11,649,736)

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>3,099,607</u>
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Net position of governmental activities (as shown on the Government-wide Statement of Net Position)	\$	<u><u>493,891,270</u></u>
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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, 2018**

	General	Street	Hotel/Motel Tax	Municipal CIP
Revenues				
Taxes	\$ 37,187,781	\$ 10,297,959	\$ 1,525,127	\$ 2,959,151
Licenses & permits	\$ 2,866,981	\$ 35,543	\$ -	\$ -
Intergovernmental & contributions	\$ 2,565,865	\$ 953,313	\$ 10,255	75,494
Charges for services	\$ 2,482,000	\$ 213,049	\$ -	274,698
Fines & forfeitures	\$ 289,054	\$ -	\$ -	\$ -
Investment & other earnings	\$ 411,638	\$ 214,326	\$ 106,588	64,877
Net Change in FV of investments	\$ 31,870	\$ -	\$ -	31,365
Rent & leases	\$ 1,335,678	\$ 6,900	\$ -	\$ -
Miscellaneous	\$ 291,151	\$ 10,530	\$ -	\$ -
Total Revenues	47,462,018	11,731,620	1,641,970	3,405,585
Expenditures				
Current:				
Judicial	634,665	-	-	-
General Government	7,440,568	-	-	39,293
Public Safety	23,117,834	-	-	-
Transportation	146,606	3,137,854	-	-
Health & Human Services	699,017	-	-	-
Economic Environment	2,058,184	48,154	1,092,420	5,809
Culture & Recreation	3,739,395	-	-	4,120
Debt Service:				
Principal	-	-	-	-
Interest & other costs	-	-	-	-
Capital Outlay:				
General Government	89,921	-	-	88,072
Judicial	12,562	-	-	-
Public Safety	-	-	-	39,340
Transportation	-	3,019,916	-	-
Economic Environment	-	-	-	33,395
Culture & Recreation	-	-	-	4,428,553
Total Expenditures	37,938,752	6,205,924	1,092,420	4,638,582
Excess (deficiency) of revenues over (under) expenditures	9,523,266	5,525,696	549,550	
Other Financing Sources (Uses)				
Transfers in	861,914	-	-	64,161
Transfers out	(95,700)	(5,522,412)	-	-
Disposal of Capital Assets	-	-	-	45,712
Total Other Fin Sources (Uses)	766,214	(5,522,412)	-	109,873
Net Change in Fund Balances	10,289,480	3,284	549,550	(1,123,123)
Fund Balances-Beg (as prev repts)	24,421,565	15,586,180	8,055,678	8,405,946
Prior Year Adjustments	14,217	-	-	-
Fund Balances-January 1st	24,435,782	15,586,180	8,055,678	8,405,946
Fund Balances-December 31st	\$ 34,725,262	\$ 15,589,464	\$ 8,605,228	\$ 7,282,823

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

Governmental Funds - City of SeaTac, WA

	Facility Construction CIP	Transportation CIP	Other Governmental Funds	Total Governmental Funds
Revenues				
Taxes	\$ -	\$ -	\$ 343,200	\$ 52,313,218
Licenses & permits	-	-	-	2,902,525
Intergovernmental & contributions	-	2,282,117	194,700	6,081,744
Charges for services	-	5,430,235	-	8,399,981
Fines & forfeitures	-	-	-	289,054
Investment & other earnings	20,086	102,458	73,366	993,340
Net Change in FV of investments	-	-	-	63,236
Rent & leases	-	-	-	1,342,578
Miscellaneous	-	-	-	301,681
Total Revenues	20,086	7,814,810	611,266	72,687,356
Expenditures				
Current:				
Judicial	-	-	-	634,665
General Government	-	-	-	7,479,861
Public Safety	-	-	-	23,117,834
Transportation	-	-	-	3,284,460
Health & Human Services	-	-	-	699,017
Economic Environment	-	-	51,087	3,255,653
Culture & Recreation	-	-	-	3,743,515
Debt Service:				
Principal	-	-	330,000	330,000
Interest & other costs	-	-	13,205	13,205
Capital Outlay:				
General Government	617	-	0	178,610
Judicial	-	-	-	12,562
Public Safety	86,167	-	-	125,507
Transportation	-	4,860,082	0	7,879,999
Economic Environment	3,536	-	-	36,932
Culture & Recreation	-	-	-	4,428,553
Total Expenditures	90,320	4,860,082	394,292	55,220,373
Excess (deficiency) of revenues over (under) expenditures	(70,234)	2,954,728	216,974	17,466,983
Other Financing Sources (Uses)				
Transfers in	-	5,071,796	135,300	6,133,171
Transfers out	-	-	(5,694)	(5,623,806)
Disposal of Capital Assets	707,150	127,400	-	880,262
Total Other Fin Sources (Uses)	707,150	5,199,196	129,606	1,389,627
Net Change in Fund Balances	636,916	8,153,924	346,580	18,856,610
Fund Balances-Beg (as prev repts)	867,820	3,453,797	5,219,387	66,010,373
Prior Year Adjustments	-	-	-	14,217
Fund Balances-Beginning	867,820	3,453,797	5,219,387	66,024,590
Fund Balances-Ending	\$ 1,504,736	\$ 11,607,721	\$ 5,565,967	\$ 84,881,200

**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, 2018**

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)	\$ 18,856,610
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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	10,449,160	
Depreciation expense	<u>(5,506,894)</u>	4,942,266

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.	(792,064)
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Investment in joint ventures are not considered financial resources and are, therefore, not reported in the governmental funds.	262,464
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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>330,000</u>	341,384

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.	963,269
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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.	(2,120,655)
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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 compensated absences	<u>(73,711)</u>	(73,711)

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	(28,968)	
Gain on sale of capital assets	11,545	
Transfers involving other funds (net)	<u>6,730</u>	<u>(10,693)</u>

Change in net position of governmental activities (as shown on the Statement of Activities-Governmental Activities)	<u>\$ 22,368,870</u>
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The notes to the financial statements are an integral part of this statement.

Statement of Net Position
December 31, 2018

	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	\$ 8,046,400	\$ 364,740	\$ 8,411,141	1,158,780
Investments	\$ -	\$ -	-	496,029
Customer receivables (net)	\$ 124,428	\$ 43,783	168,211	36
Other receivables	\$ -	\$ 26,826	26,826	-
Prepaid items	\$ 143	\$ -	143	-
Total Current Assets	<u>\$ 8,170,971</u>	<u>435,349</u>	<u>8,606,320</u>	<u>1,654,845</u>
Noncurrent Assets:				
Capital assets (net of accumulated depreciation):				
Buildings	\$ 156,604	-	\$ 156,604	-
Other improvements	\$ 23,844,164	-	\$ 23,844,164	-
Vehicles and equipment	\$ 2,703	-	\$ 2,703	1,652,123
Intangible assets - software	\$ 25,715	-	\$ 25,715	-
Intangible assets - easements	\$ 35,442	-	\$ 35,442	-
Total Noncurrent Assets	<u>\$ 24,064,629</u>	<u>-</u>	<u>\$ 24,064,629</u>	<u>1,652,123</u>
Total Assets	<u>\$ 32,235,600</u>	<u>\$ 435,349</u>	<u>\$ 32,670,949</u>	<u>3,306,968</u>
Deferred Outflows of Resources				
Deferred Outflows Related to Pensions	\$ 56,081	\$ 11,885	\$ 67,966	2,467
Liabilities				
Current Liabilities:				
Accounts payable	16,122	-	16,122	13,880
Due to other governments	9,713	-	9,713	-
Compensated absences	2,992	282	3,274	232
Total Current Liabilities	<u>28,827</u>	<u>282</u>	<u>29,109</u>	<u>14,112</u>
Noncurrent Liabilities:				
Compensated absences	56,846	5,368	62,214	4,414
Net pension liability	109,384	23,175	132,559	4,789
Total Noncurrent Liabilities	<u>166,230</u>	<u>28,543</u>	<u>194,773</u>	<u>9,203</u>
Total Liabilities	<u>195,057</u>	<u>28,825</u>	<u>223,882</u>	<u>23,315</u>
Deferred Inflows of Resources				
Deferred Inflows Related to Pensions	124,394	26,352	150,746	6,412
Net Position				
Investment in capital assets	24,064,629	-	24,064,629	1,652,123
Unrestricted	<u>7,907,601</u>	<u>392,057</u>	<u>8,299,658</u>	<u>1,627,585</u>
Total Net Position	<u>\$ 31,972,230</u>	<u>\$ 392,057</u>	<u>\$ 32,364,287</u>	<u>3,279,708</u>
Cumulative adjustment to reflect the consolidation of the Equipment Rental Internal Service Fund activities as related to enterprise funds over time.			<u>188,835</u>	
Net position of business-type activities			<u>\$ 32,553,122</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, 2018**

	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	3,958,466	379,316	4,337,782	508,184
Operating Expenses				
Maintenance & operations	1,638,618	153,231	1,791,849	303,142
Administrative & general	290,125	-	290,125	-
Depreciation	661,405	-	661,405	300,584
Total Operating Expenses	2,590,148	153,231	2,743,379	603,726
Operating Income (Loss)	1,368,318	226,085	1,594,403	(95,542)
Nonoperating Revenues (Exps)				
Intergovernmental revenues	68,571	51,569	120,140	-
Investment earnings	103,333	3,579	106,912	22,481
Gain (loss) on disposal of assets	-	-	-	11,545
Misc nonoperating revs (exps)	14,575	2,506	17,081	7,497
Total Nonoperating Revs (Exps)	186,479	57,654	244,133	41,523
Income (Loss) Before Contributions & Transfers	1,554,797	283,739	1,838,536	(54,019)
Transfers in	3,695	-	3,695	60,052
Transfers out	(502,815)	(20,000)	(522,815)	(21,783)
Change in Net Position	1,055,677	263,739	1,319,416	(15,750)
Net Position-Beg (as prev repts)	30,907,480	-		3,295,457
Prior Year Adjustment	9,074			-
Net Position-Beginning	30,916,554	128,319	31,044,873	3,295,457
Net Position-Ending	<u>\$ 31,972,231</u>	<u>\$ 392,058</u>	<u>\$ 32,364,289</u>	<u>\$ 3,279,707</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.

(36,595)

Change in net position of business-type activities

\$ 1,282,821

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

**Statement of Cash Flows
For the Year Ended December 31, 2018**

	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	\$ 4,022,426	\$ 368,964	\$ 4,391,391	\$ (17)
Receipts from other funds	\$ 9,713	-	9,713	508,184
Payments to suppliers	\$ (712,793)	(38,972)	(751,766)	(317,914)
Payments to employees	\$ (1,358,143)	(129,464)	(1,487,607)	(3,313)
Net Cash Provided (Used) by Operating Activities	1,961,203	200,528	2,161,731	186,940
Cash Flows from Noncapital Financing Activities:				
Intergovernmental revenue	68,571	51,569	120,140	-
Transfers from other funds	3,695	-	3,695	31,539.00
Transfers to other funds	(502,815)	(20,000)	(522,815)	(21,783.00)
Nonoperating revenue received	14,575	2,506	17,081	7,496.49
Net Cash Provided (Used) by Noncapital Financing Activities	(415,974)	34,075	(381,899)	17,252
Cash Flows from Capital & Related Financing Activities:				
Proceeds from sale of assets	-	-	-	17,150
Purchase of capital assets	-	-	-	(71,247)
Net Cash Provided (Used) by Capital & Related Financing Activities	-	-	-	(54,097)
Cash Flows from Investing Activities:				
Interest received	103,333	3,579	106,912	20,535
Net Cash Provided (Used) by Investing Activities	103,333	3,579	106,912	20,535
Net Increase (Decrease) in Cash and Cash Equivalents	1,648,562	238,182	1,886,743	170,630
Cash & Cash Equivalents-Beginning*	6,397,839	126,558	6,524,397	1,487,227
Cash & Cash Equivalents-Ending	\$ 8,046,401	\$ 364,740	\$ 8,411,141	\$ 1,657,857

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)	\$ 1,368,318	\$ 226,085	\$ 1,594,403	\$ (95,542)
Adjustments to reconcile operating				
income to net cash provided				
(used) by operating activities:				
Depreciation	661,405	-	661,405	300,584
Pension Expense	(65,178)	(13,797)	(78,975)	(2,978)
(Incr) decr in accts receivable	63,961	(10,352)	53,609	(17)
(Incr) decr in prepaid expenses	12,369	309	12,678	-
Incr (decr) in accounts payable	(96,192)	-	(96,192)	(14,772)
Incr (decr) in due to other government	9,714	-	9,714	-
Incr (decr) in compensated absences	6,806	(1,717)	5,089	(335)
Total adjustments	592,885	(25,557)	567,328	282,482
Net Cash Provided (Used) by Operating Activities	\$ 1,961,203	\$ 200,528	\$ 2,161,731	\$ 186,940

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. As required by the generally accepted accounting principles the financial statements present city, the primary government, and its component units. 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. Basis of Presentation - Government–Wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the non-fiduciary activities of the primary government and its component units. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

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

As a general rule the effect of the interfund activity has been eliminated for the government-wide financial statements.

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.

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 Facility Construction 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.

The City reports the following major enterprise funds:

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

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 the following fund types:

Internal service funds account for the costs of maintaining and repairing all City vehicles and auxiliary equipment except for police vehicles on a cost reimbursement basis. This Fund also accumulates resources for the future replacement of existing vehicles and equipment.

C. Measurement Focus, Basis of Accounting

1. Government-Wide and Governmental Funds

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, similar to the proprietary fund financial 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 in which they are levied. Grants and similar items are recognized as revenue as soon as eligibility requirements imposed by the provider have been met.

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. The City considers property taxes as available if they are collected within 60 days after year end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when a payment is due.

Property taxes, licenses, and interest 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.

2. Proprietary Funds

The proprietary fund statements (enterprise and internal service funds) are reported using the economic resources measurement focus and full-accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when liability is incurred regardless of the timing of the cash flows.

Proprietary 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. The principal operating revenues of the City are storm drainage fees and franchise fees paid for solid waste services. Operating expenses for the city include 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.

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, Facility Construction 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 (except for appropriations for capital outlays, which are carried forward for year to year until fully expended or the purpose of the appropriation has been accomplished or abandoned).

Biennial appropriated budgets are adopted at the fund level, except in the general fund, where expenditures may not exceed appropriations at the department level and the budgets constitute the legal authority for expenditures at that level.

Encumbrances accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservation of fund balances and do not constitute expenditures or liabilities because the commitments will be re-appropriated and honored during the subsequent year.

2. Amending the Budget

The City Manager is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of a fund, or that affect the number of authorized employee positions, salary ranges, hours, or other conditions of employment must be approved by the City Council.

When the City Council determines that it is in the best interest of the City to increase or decrease the appropriation for a particular fund, it may do so by Ordinance approved by one more than the majority.

The budget amounts shown in the financial statements are the final authorized amounts as revised during the year.

The financial statements contain the original and final budget information. The original budget is the first complete appropriated biennial budget. The final budget is the original biennial budget adjusted by all reserves, transfers, supplemental appropriations, 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, 2018, the City had holdings of \$82,777,683 (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 prorated to the various funds based on ownership of the investments.

At December 31, 2018, the City's total cash and cash equivalents (including cash restricted for debt) consisted of the following:

US Bank, General Fund Checking Account	\$29,438,515
US Bank, Municipal Court Checking Account.....	59,115
Cash with Kidder Mathews.....	140,409
Cash with Renton Foundation.....	51,598
Cash Equivalents with State Treasurer's Investment Pool.....	53,078,146
City Hall Postage Meter Fund.....	8,000
Petty Cash/Change Funds.....	1,900
Total Cash and Cash Equivalents.....	<u>\$82,777,683</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 \$23.7 million.

For purposes of the Statement of Cash Flows, proprietary funds consider all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. 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 consists of 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 either 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, as reported in the fund financial statements, are offset by a fund balance reserve 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 2018.

5. Inventories

Inventories in governmental funds consist of expendable supplies held for consumption. The cost is recorded as expenditure 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

Compensated absences are absences for which employees will be paid, such as vacation and sick leave. The City records an estimated liability for unused vacation, sick leave, floating holiday and compensatory time.

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. Vacation pay is based on the employee's last hourly rate of pay and payable upon resignation, retirement, or death.

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 sick leave be based on the employee's last hourly rate of pay.

Compensatory time can be accrued up to a maximum of 80 hours and is payable upon resignation, retirement, or death.

At the end of 2018, total compensated absences liability was \$855,990 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 are accrued as incurred in proprietary funds. The total liability amount in the City's Surface Water Utility Fund at December 31, 2018 was \$59,837. It is estimated that \$2,992 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, 2018 was \$5,650. It is estimated that \$282 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 \$4,646 and it is estimated that \$232 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 wages and 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.

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 \$188,835 difference are as follows:

Internal receivable representing charges in excess of cost to business-type activities – prior years	\$225,430
Internal receivable representing charges under cost to business-type activities – current year	<u>(36,595)</u>
Net adjustment to increase net position – total enterprise funds to arrive at net position – business-type activities	<u>\$188,835</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

Cash on hand at December 31, 2018 was \$29,438,515.

Custodial Credit Risk: Custodial credit risk for deposits is the risk that, in event of a failure of a depository financial institution, the City would not be able to recover deposits or will not be able to recover collateral securities that are in possession of an outside party. The City’s deposits are covered entirely by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public

Deposit Protection Commission (PDPC)

B. Investments

Investments are subject to the following risks.

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 1.52 years.

Investment Type	Fair Value	Maturities (in Years)	
		Less Than 1	1 to 5
Government Sponsored Enterprises	\$ 4,934,112	\$ 2,480,143	\$ 2,453,969
U.S. Treasury Strips	5,044,877		5,044,877
Total Investments	\$ 9,978,989	\$ 2,480,143	\$ 7,498,846

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 credit ratings on securities held by the City of SeaTac on December 31, 2018, are listed below:

Investment Type	Ratings		Fair Value
	Moody's	S&P	
Government Sponsored Enterprises			
Federal National Mortgage Association	Aaa	AA+	2,480,143
Federal Home Loan Bank	Aaa	AA+	2,453,969
Resolution Funding Corporation Strips	NR	NR	5,044,877
Total			\$ 9,978,989

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.

Investments in Local Government Investment Pool (LGIP)

The City is a participant in the Local Government Investment Pool, authorized by Chapter 294, Laws of 1986, and 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 rules. The State Treasurer is responsible for establishing the investment policy for the pool and reviews the policy annually and proposed changes are reviewed by the LGIP Advisory Committee.

Investments in the LGIP, a qualified external investment pool, are reported at amortized cost which approximates fair value. The LGIP is an unrated external investment pool. The pool portfolio is invested in a manner that meets the maturity, quality, diversification and liquidity requirements set forth by GASB 79 for external investment pools that elect to measure, for financial reporting purposes, investments at amortized cost. The LGIP does not have any legally binding guarantees of share values. The LGIP does not impose liquidity fees or redemption gates on participant withdrawals.

Investments Measured at Amortized Cost

As of December 31, 2018, the City of SeaTac held the following investments at amortized cost:

Renton Community Foundation	51,598
Washington State Local Government Investment Pool	53,078,146
Total	\$ 53,129,744

The Office of the State Treasurer prepares a stand-alone LGIP financial report. A copy of the report is available from the Office of the State Treasurer, PO Box 40200, Olympia, Washington 98504-0200, online at <http://www.tre.wa.gov>.

Investments Measured at Fair Value

The City measures and reports investments at fair value using the valuation input hierarchy stabled by generally accepted accounting principles, as follows:

- Level 1: Quoted prices in active markets for identical assets or liabilities;
- Level 2: These are quoted market prices for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other than quoted prices that are not observable;
- Level 3: Unobservable inputs for an asset or liability.

At December 31, 2018, the City had the following investments measured at fair value:

Investments By Fair Value	12/31/2018	Quoted Prices		
		In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Government Sponsored Enterprises	\$ 9,978,989	\$ -	\$ 9,978,989	\$ -
Total By Fair Value Level	\$ 9,978,989	\$ -	\$ 9,978,989	\$ -

C. Summary of Deposit and Investment Balances

Reconciliation of SeaTac’s deposits and investment balances as of December 31, 2018 is as follows:

Cash Deposits and Investments	Fair Value	Cost Based Measure	Percent of Total
Government Sponsored Enterprises			
Federal National Mortgage Association	\$ 2,480,143		2.68%
Federal Home Loan Bank	2,453,969		2.65%
Resolution Funding Corporation Strips	5,044,877		5.45%
Cash on Hand		9,900	0.00%
FDIC or PDPC Insured Bank Deposits		29,438,515	31.81%
Washington State Local Government Investment Pool		53,078,146	57.35%
Renton Community Foundation		51,598	0.06%
Total	\$ 9,978,989	\$ 82,578,159	
Total Cash, Deposits and Investments		\$ 92,557,148	

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.
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 \$3.23 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 \$2.747 per \$1,000 of assessed value. Based on a City-wide assessed valuation of \$6,136,524,621 the total property tax levy for 2018 was \$16,892,202 (Note: Property taxes collected in 2018 are based on the 2017 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. 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 2018. Please note that \$1,652,123 (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 01/01/2018	Increases	Decreases	Transfers In/ (Out)	Ending Balance 12/31/2018
Capital assets not being depreciated:					
Land	\$321,450,238	\$1,733,393	\$(1,016,962)	\$0	\$322,166,669
Intangible Assets–Easements	127,978	0	0	0	127,978
Construction in Progress (CIP)	20,001,547	9,390,249	(19,689,936)	0	9,701,860
Total assets not being deprec.	\$341,579,764	\$11,123,642	\$(20,706,899)	\$0	\$331,996,507
Capital assets being depreciated:					
Buildings/Bldg Improvements	\$46,647,361	\$142,870	\$(555,543)	\$0	\$46,234,688
Other Improvements	13,478,727	185,221	(49,481)	0	13,614,467
Infrastructure	98,458,034	15,544,674	0	0	114,002,708
Equipment/Vehicles	2,122,175	10,923	(277,085)	0	1,856,013
Equipment/Vehicles (Eq Rental)	3,963,194	71,247	(56,053)	28,513	4,006,901
Intangible Assets-Software	615,454	0	0	0	615,454
Total assets being depreciated	\$165,284,945	\$15,954,935	\$(938,162)	\$28,513	\$180,330,231
Total governmental capital assets before depreciation	\$506,864,709	\$27,078,577	\$(21,645,061)	\$28,513	\$512,326,738
Less accumulated depreciation for:					
Buildings/Bldg Improvements	\$(19,894,724)	\$(1,884,122)	\$337,572	\$0	\$(21,441,274)
Other Improvements	(7,532,216)	(562,465)	49,481	0	(8,045,200)
Equipment/Vehicles	(1,738,489)	(103,212)	277,085	0	(1,564,616)
Equipment/Vehicles (Eq Rental)	(2,104,642)	(300,584)	50,448	0	(2,354,778)
Infrastructure	(61,521,260)	(2,924,065)	0	0	(64,445,325)
Intangible Assets-Software	(501,553)	(33,031)	0	0	(534,584)
Total accumulated depreciation	\$(93,292,884)	\$(5,807,479)	\$714,586	\$0	\$(98,385,777)
Total governmental activities capital assets (net)	\$413,571,825	\$21,271,098	\$(20,930,475)	\$28,513	\$413,940,961

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

Governmental Activities:	
Judicial	2,142
General Government	482,331
Public Safety	301,770
Physical & Economic Environment	942,223
Transportation	2,954,094
Transportation (Equipment Rental – Internal Service Fund)	300,584
Culture & Recreation	824,333
Total Depreciation Expense-Governmental Activities	\$5,807,477

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 2018:

Business-Type Activities Capital Assets	Beginning Balance 01/01/2018	Increases	Decreases	Transfers In & (Out)	Ending Balance 12/31/2018
Capital assets not being depreciated:					
Construction in Progress	\$218,535	\$0	\$(218,535)	\$0	\$0
Intangible Assets-Easements-SWM	35,442	0	0	0	35,442
Total assets not being depreciated	\$253,977	\$0	\$(218,535)	\$0	\$35,442
Capital assets being depreciated:					
Buildings-SWM	\$228,560	\$0	\$0	\$0	\$228,560
Other Improvements-SWM	32,911,167	218,535	0	0	33,129,702
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	\$218,535	\$0	\$0	\$33,527,814
Total business-type capital assets before depreciation	\$33,563,256	\$218,535	\$0	\$0	\$33,563,256
Less accumulated depreciation for:					
Buildings	\$(66,795)	\$(5,161)	0	0	(71,956)
Other Improvements	(8,646,106)	(639,432)	0	0	(9,285,538)
Equipment	(7,227)	(2,988)	0	0	(10,215)
Intangible Assets-Software	(117,094)	(13,824)	0	0	(130,918)
Total accumulated depreciation	\$(8,837,222)	\$(561,405)	\$0	\$0	\$(9,498,627)
Total bus-type capital assets (net)	\$24,726,035	\$(342,870)	\$0	\$0	\$24,064,629

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

Business-type Activities:	
Utilities/Physical Environment (Surface Water Utility)	\$561,405
Total Depreciation Expense-Business-type Activities	\$561,405

C. Construction Commitments

The following table describes the active construction projects on December 31, 2018 and the City’s commitment

with the contractors:

Project	Spent to Date	Remaining Commitment
Ceccanti, Inc. - Connecting 28 th /24 th Avenue South	13,137,128	382,745
Parametrix – 24 th Ave S/S 160 th St	145,458	455,713
Parametrix – Military Rd S & S 152 nd St	421,994	228,006
Gray & Osborne – Des Moines Dr & 200 th Improvements	207,483	233,096
Parametrix – S 166 th St Pedestrian Improvements	350,839	142,269
Tucci & Sons – S 166 th St Pedestrian Improvements	1,134,303	1,459,220
PBS Eng & Enviro – S 200 th St Ped & Bicycle Pathway	112,508	129,485
WSDOT – 2018 Overlay Project	5,286	2,714
RW Scott Construction – 2018 Overlay Project	2,171,776	444,182
Krazan & Associates – 2018 Overlay Project	2,713	10,333
Bruce Dees & Associates LLC – Valley Ridge Sports Field Improvements	200,438	3,105
Coast to Coast Turf – Valley Ridge Sports Field Improvements	4,071,796	463,965
Total Outstanding Construction Commitments	\$21,961,722	\$3,954,833

NOTE 7: PENSION PLANS

The following table represents the aggregate pension amounts for all plans for the year 2018:

Aggregate Pension Amounts – All Plans	
Pension liabilities	\$(4,692,316)
Pension assets	\$ 124,253
Deferred outflows of resources	\$1,062,087
Deferred inflows of resources	\$ 2,198,457
Pension expense/expenditures	\$179,937

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 2018 were as follows:

PERS Plan 1		
Actual Contribution Rates	Employer	Employee*
January - June 2018:		
PERS Plan 1	7.49%	6.00%
PERS Plan 1 UAAL	5.03%	
Administrative Fee	0.18%	
Total	12.70%	6.00%
July - December 2018:		
PERS Plan 1	7.52%	6.00%
PERS Plan 1 UAAL	5.13%	
Administrative Fee	0.18%	
Total	12.83%	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 2018 were as follows:

PERS Plan 2/3		
Actual Contribution Rates	Employer 2/3	Employee 2*
January – June 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%
July – December 2017:		
PERS Plan 2/3	7.52%	7.41%
PERS Plan 1 UAAL	5.13%	
Administrative Fee	0.18%	
Employee PERS Plan 3		Varies
Total	12.83%	7.41%

* For employees participating in JBM, the contribution rate was 18.45% to 18.53%.

The City's actual PERS plan contributions were \$492,576 to PERS Plan 1 and \$729,605 to PERS Plan 2/3 for the year ended December 31, 2018.

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 1 had no required employer or employee contributions for fiscal year 2018. 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 2018 with a valuation date of June 30, 2017. 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 *2017 Economic Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2017 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2018. Plan liabilities were rolled forward from June 30, 2016 to June 30, 2018, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- **Inflation:** 2.78% total economic inflation; 3.50% salary inflation
- **Salary increases:** In addition to the base 3.50% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- **Investment rate of return:** 7.4%

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.

- Lowered the valuation interest rate from 7.70% to 7.50% for all systems except LEOFF 2. For LEOFF 2 the valuation interest rate was lowered from 7.50% to 7.40%.
- Lowered the assumed general salary growth from 3.75% to 3.50% for all systems.
- Lowered assumed inflation from 3.00% to 2.75% for all systems.
- Modified how the valuation software calculates benefits paid to remarried duty-related death survivors of LEOFF 2 members.
- Updated the trend that the valuation software uses to project medical inflation for LEOFF 2 survivors of a duty-related death, and for certain LEOFF 2 medical-related duty disability benefits.

Discount Rate

The Discount rate used to measure the total pension liability for all DRS plans was 7.4 percent.

To determine that rate, an asset sufficiency test included an assumed 7.5 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. (All plans use 7.5 percent except LEOFF 2, which has assumed 7.4 percent). Consistent with the long-term expected rate of return, a 7.4 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 7.4 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 7.4 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, 2018, 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	7%	4.90%
Real Estate	18%	5.80%
Global Equity	32%	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 7.4 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 (6.4 percent) or 1-percentage point higher (8.4 percent) than the current rate.

	1% Decrease (6.4%)	Current Discount Rate (7.4%)	1% Increase (8.4%)
PERS 1	\$3,867,894	\$3,147,348	\$2,523,210
PERS 2/3	7,066,720	1,544,968	(2,982,252)
LEOFF 1	(18,477)	(138,948)	(237,206)

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, 2018, the City reported a total pension liability of \$4,692,316 for its proportionate share of the net pension liabilities as follows:

	Liability (or Asset)
PERS 1	\$3,147,348
PERS 2/3	1,544,968
LEOFF 1	(124,253)

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	(124,253)
State's proportionate share of the net pension asset associated with the employer	(840,444)
TOTAL	(964,697)

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

	Proportionate Share 6/30/17	Proportionate Share 6/30/18	Change in Proportion
PERS 1	.067707%	.070473%	.002766%
PERS 2/3	.085227	.090486	.005259%
LEOFF 1	.006773	.006844	.000071%

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

LEOFF Plan 1 allocation percentages are based on the total historical employer contributions to LEOFF 1 from 1971 through 2000 and the retirement benefit payments in fiscal year 2018. Historical data was obtained from a 2011 study by the Office of the State Actuary (OSA). In fiscal year 2018, 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 2018, the state of Washington contributed 39.30 percent of LEOFF 2 employer contributions pursuant to RCW 41.26.725 and all other employers contributed the remaining 60.70 percent of employer contributions.

The collective net pension liability (asset) was measured as of June 30, 2018, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2017, with update procedures used to roll forward the total pension liability to the measurement date.

Pension Expense

For the year ended December 31, 2018, the City recognized pension expense as follows:

	Pension Expense
PERS 1	\$393,098
PERS 2/3	(\$192,207)
LEOFF 1	(\$20,953)
TOTAL	\$179,937

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2018, 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	(\$125,074)
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	\$269,847	\$0
TOTAL	\$269,847	(\$125,074)

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$189,373	(\$270,495)
Net difference between projected and actual investment earnings on pension plan investments	\$0	(\$948,064)
Changes of assumptions	\$18,074	(\$439,685)
Changes in proportion and differences between contributions and proportionate share of contributions	\$186,852	(\$403,880)
Contributions subsequent to the measurement date	\$397,942	\$0
TOTAL	\$792,240	(\$2,062,125)

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	(\$10,088)
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	(\$10,088)

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
2019	\$5,472
2020	(\$27,342)
2021	(\$82,045)
2022	(\$21,159)
Thereafter	\$0

Year ended December 31:	PERS 2/3
2019	(\$263,801)
2020	(\$356,077)
2021	(\$605,022)
2022	(\$239,610)
2023	(\$104,258)
Thereafter	(\$1,667,827)

Year ended December 31:	LEOFF 1
2019	\$10
2020	(\$2,276)
2021	(\$6,198)
2022	(\$1,624)
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, 2018, there were 114 active members in the City of SeaTac Retirement Trust. Actual employee contributions during the year amounted to \$567,577. Actual employer contributions were \$463,000.

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 2018 commercial insurance policies limits and deductibles are as follows:

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

*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, 2018, 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 2018 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	\$0
Total General Obligation Bonds		\$2,675,000	\$0
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	\$2,135,250
Total Special Obligation Bonds (Contractual)		\$2,587,050	\$2,217,900

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

Governmental-type Debt		
2009 SCORE Bonds (2009A & 2009B) (Contractual Special Obligation)		
Ratings: Moody's A1 & S&P AA		
Year Ending Dec 31	Principal	Interest ¹
2019	69,300	138,067
2020-2024	387,150	633,065
2025-2029	470,250	505,012
2030-2034	577,950	334,753
2035-2039	713,250	121,942
Total SCORE Bonds	\$2,217,900	\$1,732,832

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 2018, the City has used 2.4% 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 \$89.8 million remaining in available debt capacity. For voted debt (up to 2.5% of total taxable property), the City has \$151.2 million in remaining debt capacity. There is currently no voted debt outstanding. (Note: If the City issued the full \$89.8 million of Councilmanic debt, only \$61 million in voted debt could be issued for general purposes.)

The City had no arbitrage rebate liability for outstanding tax-exempt bonds in 2018.

At December 31, 2018, the City had \$393,026 in cash and cash equivalents in debt service funds to service the general bonded debt.

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

The City currently has no outstanding special assessment bonds. At this time, there are no plans to issue and special assessment bonds to fund future projects.

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 and two lease agreements to house antennas on roofs of City buildings. One antenna is on the roof of City Hall and one is on the

roof of the SeaTac Community Center.

The City has one parking and one land lease agreement. The parking lease 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 2018, accumulated depreciation on the building was \$7.6 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 City also acquired a month to month lease with MP Triangle LLC in 2018, as part of the redevelopment plan. The City entered into negotiations for the purchase and development of the property and anticipates the sale will close by the end of 2019. At the end of December 2018, all tenants have month-to-month leases.

NOTE 12: CHANGES IN LONG-TERM LIABILITIES

During the year ended December 31, 2018, the following changes occurred in long-term liabilities:

	Beginning Balance 01/01/18	Additions	Reductions	Ending Balance 12/31/18	Due Within One Year
Governmental Activities:					
Bonds payable:					
General obligation bonds	\$330,000	\$0	\$(330,000)	\$0	\$0
Special obligation bonds	2,285,100	0	(67,200)	2,217,900	69,300
Add: Premium on GO bonds	11,384	0	(11,384)	0	0
Total bonds payable - net	\$2,626,484	\$0	\$(408,584)	\$2,217,900	\$69,300
Compensated absences	786,925	85,774	(16,709)	855,990	42,800
Compensated absences-ISF	4,982	0	(393)	4,589	229
Gov activities long-term liabilities	\$3,418,391	\$85,774	\$(425,686)	\$3,078,479	\$112,329
Business-type Activities:					
Compensated absences	\$60,398	\$6,979	\$(1,890)	\$65,487	\$3,274
Bus-type activities long-term liab	\$60,398	\$6,979	\$(1,890)	\$65,487	\$3,274

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 \$4,646 in estimated compensated absence liabilities. The chart above includes the City’s estimate of compensated absences due within one year for both types of activities. Typically, the governmental activities estimated amount is funded out of the General Fund while the business-type activities estimated amount is funded out of the Surface Water Utility Fund.

NOTE 13: CONTINGENCIES AND LITIGATIONS

The City has recorded in its financial statements all material liabilities, including an estimate for situations which are not yet resolved but where, based on available information, management believes it is probable that the City will have to

make payment. In the opinion of management, the City's insurance policies are adequate to pay all known or pending claims. In addition, management reports the following lawsuit that has not been resolved:

1. *Estate of Mohamed and Ahmed Farah v. City of SeaTac.* This lawsuit was filed against the City for claims of negligence related to a vehicle-pedestrian accident that occurred in December, 2015. Mr. Mohamed was killed when struck by a drunk driver when crossing a City street, and Mr. Farah was another pedestrian injured as a result of the same accident. Both Mr. Mohamed and Mr. Farah were not crossing the street at a marked crosswalk when they were struck by the drunk driver. The Plaintiffs asserted that the City was negligent for several reasons, including lack of a pedestrian crossing and inadequate lighting. This case was settled in March, 2019 for \$130,000, with the cost of settlement and all defense costs borne by the City's insurance, after payment of the City's \$10,000 deductible.
2. *Hein Nguyen.* In January, 2019, Mr. Nguyen, a former City employee, filed a lawsuit against the City alleging violations of the Washington Law Against Discrimination and the Washington Family Leave Act. Mr. Nguyen claimed damages between \$25,000 and \$1,000,000. This claim has been tendered to the insurance company. It is unknown whether the City will be deemed liable, and thus the probable outcome of this claim is unknown at this time. It is anticipated that this claim (including costs to defend this claim) will be covered by insurance after the City's payment of a \$100,000 deductible.
3. *Penny M. Smith.* In November, 2016, Ms. Smith was hit by a motor vehicle while crossing International Boulevard at South 208th Street. She asserts that the City was negligent because the traffic crossing signal was not working properly. Ms. Smith settled with the driver for policy limits, and she is seeking \$250,000 additional compensation from the City. This claim has been tendered to the City's insurance company. The City has also tendered this claim to King County, as the County is responsible for maintaining the traffic signals in the City. The City has denied this claim; however, future litigation is possible. At this time, the probable outcome of this claim is unknown. Should litigation occur, it is anticipated that this claim (including costs to defend this claim) will be covered by insurance after the City's payment of a \$10,000 deductible.
4. *Margarita Flores.* In October, 2018, Ms. Flores, a current City employee, submitted a claim seeking \$200,000 damages related to alleged workplace retaliation. The City has denied this claim; however, future litigation is possible. At this time, the probable outcome of this claim is unknown. Should litigation occur, it is anticipated that this claim (including costs to defend this claim) will be covered by insurance after the City's payment of a \$100,000 deductible.
5. *Benjamin Mendez.* In November, 2018, Mr. Mendez filed a claim seeking \$250,000 damages for damages incurred as the result of a traffic collision. Mr. Mendez asserts that the collision was the result of a malfunctioning traffic light. The City has denied this claim; however, future litigation is possible. At this time, the probable outcome of this claim is unknown. Should litigation occur, it is anticipated that this claim (including costs to defend this claim) will be covered by insurance after the City's payment of a \$50,000 deductible.
6. *Erna Brittain.* In August, 2019, Ms. Brittain filed a claim seeking \$1,000,000 in damages as the result of a traffic collision with Mr. Mendez (see item #5 above). Ms. Brittain also asserts that the collision was the result of a malfunctioning traffic light. The City denies the allegations. It is anticipated that this claim will be tendered to King County, as they are the agency responsible for the maintenance and operation of the City's traffic lights. Additionally, the claim will be submitted to the City's insurance. At this time, it is anticipated that the loss to the city will not exceed \$100,000 which is the amount of the insurance deductible.
7. *Firs Home Owners Association.* In July, 2019, the Firs Homeowners Association filed a lawsuit against the City related to the City's approval of a land use application. The City denies the allegations and believes that this case will result in a favorable outcome. The complaint alleges violations of the Washington Law Against Discrimination (RCW 49.60), Title VI of the Civil Rights Act of 1964, and the Federal Fair Housing Act (42 U.S.C Section 3601). Outside legal counsel has been obtained. This issue has been tendered to the City's insurance company, although a final determination of coverage has not been received. The first \$100,000 in costs will

be borne by the City, which is the amount of the insurance deductible. The next \$50,000 in cost will be borne by the Cities Insurance Association of Washington (CIAW). Coverage beyond these amounts has not been determined. Although the lawsuit does not state a specific amount for damages, a claim filed by the Firs Homeowners Association in February, 2019 sought damages of \$10.0 million.

8. SeaTac Center. The City received and denied request for relocation benefits (pursuant to RCW 8.26) from former tenants and sub tenants of the SeaTac Center. The SeaTac Center is a property currently owned by the City that is being declared surplus so it may be sold to a private party for the redevelopment. The relocation benefit request total over \$2.5 million. The City denies that the tenants and subtenants are eligible for relocation benefits pursuant to RCW 8.26. The tenants and subtenants have filed an appeal to the City’s Hearing Examiner. The City has obtained outside counsel to assist with this matter. These claims have been tendered to the insurance company, and no coverage determination has been made to date. It is believed that the City will obtain a favorable outcome on appeal.
9. Families Belong Together. This lawsuit was filed in December, 2018, seeking injunctive relief declaring that portions of the City’s right-of-way permitting code unconstitutional. This case is currently being litigated, the probable outcome in unknown. The City has obtained assistance of outside counsel to assist with matter. Although the injunctive relief requested will not have a financial impact should the Plaintiff prevail. However, an unfavorable outcome could result in the Plaintiff being awarded attorney’s fees and costs, or other relief as the Court deems just and proper, exceeding \$50,000.

Management has received no information, other than referenced above, and has no knowledge of any other impending or potential claims or lawsuits which would materially affect the City’s financial condition.

NOTE 14: RESTRICTED COMPONENT OF NET POSITION

The government-wide Statement of Net Position reports \$42,756,414 in restricted net assets. None of the restrictions were from enabling legislation.

NOTE 15: INTER-FUND BALANCES & TRANSFERS

During 2018, 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	450,616	367,515	20,000	21,783	425,753
	Municipal CIP #301	0	0	0	0	0	64,161	64,161

Transportation CIP Fund #307	0	5,071,796	0	0	0	0	5,071,796
Surface Water Util. Fund #403	0	0	0	0	0	3,695	3,695
Other Non-Major Funds	47,725	0	135,300	0	0	0	183,025
Total Cash Transfers	47,725	5,522,412	502,815	20,000	21,783	493,609	6,608,344
Transfer in of capital assets:							
To Equipment Rental Fund #501 from General Fund #001							31,539
Total Interfund Transfers							6,639,883

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 was a single inter-fund transfer of capital assets in 2018.

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 2018:

1. Street Fund #102 – Reimbursement of administrative costs and Maintenance Facility maintenance costs for a total amount of \$450,616.
2. Facility Repair & Replacement Fund #110 – Consolidate to General Fund (\$153,497) no longer meets requirements of separate fund.
3. Building Management Fund #108 – Transfer of construction sales taxes to support City Hall maintenance (\$270,256).
4. Des Moines Creek Basin ILA Fund #111 - Reimbursement for treasury services provided by the City per Inter-local Agreement (\$2,000).
5. Surface Water Utility Fund #403 – Reimbursement of administrative costs and Maintenance Facility maintenance costs (\$367,515).
6. Equipment Rental Fund #501 – Reimbursement of administrative costs and Maintenance Facility maintenance costs (\$21,783).
7. Solid Waste & Environmental Services Fund #404 - Reimbursement of administrative costs (\$20,000).

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

Transportation CIP Fund #307

In 2018, one inter-fund transfer totaling \$5,071,796 was made into the Transportation CIP Fund as follows to assist with the payment of capital infrastructure projects in the City including the Military Road South Improvement project from Military Road South to South152nd Street, South Des Moines Memorial Drive and South 200th intersection project, and the completion of the 2017 Overlay Project.

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

Three non-major fund transfers in were made as follows: 1) Surface Water Utility Fund #403 transferred \$135,300 into the Des Moines Creek Basin Fund #111 for maintenance and operations (\$61,500) and to accumulate reserves (\$73,800) for future capital improvements, 2) Building Management Fund #108 transferred \$64,161 to Municipal Capital Improvements Fund #301 for capital improvements at City Hall, and 3) General Fund transferred \$47,725 to the Building Management Fund #108 for improvements to the 2nd floor of City Hall.

NOTE 16: RECEIVABLE AND PAYABLE BALANCES

A. Receivables

The receivable balances for the major funds at December 31, 2018 were as follows:

Fund	Taxes	Customer Accounts (Net) ¹ & Contracts	Special Assessments/ Interest & Penalties	Due from Other Gov	Total
Governmental Activities:					
General #001 ²	\$3,411,096	\$834,727	\$0	\$202,174	\$4,447,997
Street #102	933,198	32,656	0	90,449	1,056,303
Hotel/Motel Tax #107	226,323	0	0	0	226,323
Municipal Capital Imp. #301	1,492,694	0	0	0	1,492,694
Facility Construction CIP #306	0	0	0	0	0
Transportation CIP #307	0	137,285	0	0	137,285
Total Governmental Activities	\$6,063,311	\$1,004,668	\$0	\$292,623	\$7,360,602
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	\$36,436	\$0	\$87,992	\$124,428
Solid Waste & Environmental #404		43,783	0	26,826	70,609
Total Business-Type Activities	\$0	\$80,219	\$0	\$114,818	\$195,037

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, 2018 were as follows:

Fund	Accounts	Due to Other Gov	Deposits & Custodial	Interest & Other	Total
Governmental Activities:					
General #001 ¹	\$3,053,717	\$122,389	\$326,060	\$0	\$3,502,166
Street #102	417,286	0	533	0	417,819
Hotel/Motel Tax #107	14,622	0	0	0	14,622

Municipal Capital Imp. #301	272,572	0	0	0	272,572
Facility Construction CIP #306	0	0	0	0	0
Transportation CIP #307	681,434	0	0	0	681,434
Subtotal Governmental Activities	\$4,439,631	\$122,389	\$326,593	\$0	\$4,888,613
Reconciliation of balances in fund financial statements to government-wide financial statements:					
Internal service fund adjustment	13,880	0	0	0	13,880
Total Governmental Activities	\$4,453,511	\$122,389	\$326,593	\$0	\$4,902,493
Business-type Activities:					
Surface Water Utility #403	\$16,122	\$9,713	\$0	\$0	\$25,835
Solid Waste & Environmental #404	0	0	0	0	0
Total Business-type Activities	\$16,122	\$9,713	\$0	\$0	\$25,835

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

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

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

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

Financing for the acquisition, construction, equipping, and improvement of the SCORE Facility was provided by bonds issued by the South Correctional Entity Facility Public Development Authority (the “SCORE PDA”), a public development authority chartered by the City of Renton pursuant to RCW 35.21.730 through 35.21.755. 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 Interlocal Agreement and the ordinances of each city, each Owner City (which includes the Cities of Auburn, Burien, Federal Way, Renton, SeaTac, and Tukwila) is obligated to budget for and pay its share, and only its share, of the principal of and 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 therefor. The following is a summary of the debt service requirements for the Bonds:

Summary of Debt Service Requirements											
Debt Service Schedule					Debt Service Allocation to Owner Cities						
Year	Principal	Interest	BABs		Auburn	Burien	Federal Way	Renton	SeaTac	Tukwila	
			Subsidy	Total	31%	4%	18%	36%	3%	8%	
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	\$ 73,930,000	\$ 57,761,189	\$ (20,576,901)	\$ 111,114,288	\$ 34,445,429	\$ 4,444,571	\$ 20,000,572	\$ 40,001,144	\$ 3,333,429	\$ 8,889,144	

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, 2018 related to SCORE:

South Correctional Entity (SCORE)					
Member City	Percent of Equity	2017 Equity Balance	2018 Apportionment	2018 Equity Balance	
Auburn	29.00%	\$ 3,147,747	\$ 949,658	\$ 4,097,405	
Burien	4.00%	346,865	179,397	526,262	
Des Moines	2.00%	163,335	178,510	341,845	
Federal Way	24.00%	2,353,747	1,131,823	3,485,570	
Renton	29.00%	3,016,168	1,141,371	4,157,539	
SeaTac	5.00%	456,976	262,464	719,440	
Tukwila	7.00%	719,422	311,686	1,031,108	
Grand Totals	100.00%	\$ 10,204,260	\$ 4,154,909	\$ 14,359,169	

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

NOTE 18: DEFINED BENEFIT OTHER POSTEMPLOYMENT BENEFIT (OPEB) PLANS

The following table represents the aggregate OPEB amounts for all plans subject to the requirements of GASB Statement 75 for the year 2018.

Aggregate OPEB Amounts – All Plans	
OPEB Liabilities	\$1,968,379
Deferred Outflows of Resources	22,962
Deferred Inflows of Resources	0

OPEB Expenditures	5,874
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The City of SeaTac LEOFF 1 Retirees OPEB Plan is administered by the Law Enforcement Officers' and Firefighters' Disability Board (LEOFF Board) and is a single-employer defined benefit plan.

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. 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. Currently, the Plan has four retirees that meet the eligibility requirements. The Plan is closed to new entrants.

At December 31, 2018, the following employees were covered by the benefit terms:

Inactive employees currently receiving benefits	4
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A dedicated trust fund has not been established for LEOFF 1 retiree benefits; therefore, the plan is funded on a pay-as-you-go basis and there are no assets accumulated in a qualifying trust.

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. During the year, the City contributed \$40,832 to the Plan for postemployment health care.

Assumptions and Other Inputs

The City has elected to calculate the OPEB Liability and related information using the alternative measurement method permitted by GASB Statement 75 for employers in plans with fewer than one hundred total plan members. The Office of the State Actuary has prepared an online tool that assists employers in determining their OPEB liability using an actuarial valuation and measurement date of June 30, 2018.

Actuarial methods and assumptions are consistent with the 2016 LEOFF 1 Medical Benefits Actuarial Valuation Report (AVR). A discount rate of 3.75% and inflation was estimated at 3.75%. Healthcare cost trend rates range from 4.7% to 12.3% with excise tax, and 4.5% for long-term care. Mortality rates assumed a 100% male population due to 98% of the eligible LEOFF 1 population as of the measurement date is male. This approach inherently assumes all liabilities are fully earned and the Service Cost equals zero. In other words, the Entry Age Normal Total OPEB Liability is by definition equal to the Present Value of Future Benefits. Further, there is no need to make an assumption with respect to Projected Salary Changes.

The following presents the total OPEB liability of the City, calculated using the current healthcare cost trend rate of 6.8%, as well as what the OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower (5.8%) or 1-percentage point higher (7.8%) than the current rate.

	1% Decrease (5.8%)	Current Healthcare Cost Trend Rate (6.8%)	1% Increase (7.8%)
Total OPEB Liability	\$2,082,545	\$1,968,379	\$2,121,913

The following presents the total OPEB liability of the City, calculated using the discount rate of 3.5%, as well as what the OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower (2.5%) or 1-percentage point higher (4.5%) than the current rate.

	1% Decrease (2.5%)	Current Discount Rate (3.5%)	1% Increase (4.5%)
Total OPEB Liability	\$2,017,588	\$1,968,379	\$2,056,956

Changes in the Total OPEB Liability

LEOFF 1 Retirees OPEB Plan	
Total OPEB Liability at 01/01/2018	\$1,973,496
Service Cost	0
Interest	69,307
Changes in Benefit Terms	0
Changes in Experience Data and Assumptions	(56,554)
Benefit Payments	(17,870)
Other Changes	0
Total OPEB Liability at 12/31/2018	\$1,968,379

The measurement date of the total OPEB liability and the alternative measurement method calculation on which the total OPEB liability is based is June 30, 2018.

Insurance benefits are purchased from The Hartford. The Hartford Premium Plus Plan has \$0 deductible and 100% coverage on office visits, preventative care, diagnostic labs and x-rays, emergency room and hospital services. Prescription drugs are offered through Express Scripts Medicare Part D. The payment of benefits has been transferred from the employer to The Hartford Insurance company.

There are no known changes that have occurred between the measurement date and the reporting date that would have a significant effect on the total OPEB liability.

The city recognized \$13,645 of OPEB expense in the reporting period.

As December 31, 2018, the City reported deferred outflows of resources and deferred inflow of resourced related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Payments subsequent to the measurement date	\$22,962	\$0
TOTAL	\$22,962	\$0

Deferred outflows of resources of \$22,962 resulting from payments subsequent to the measurement date will be recognized as a reduction of the total OPEB liability in the year ended December 31, 2019.

NOTE 19: ACCOUNTING AND REPORTING CHANGES

The Governmental Accounting Standards Board (GASB) issued Statement 75 – Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, in 2015 for implementation to be effective with the end of year 2018. This Statement addresses accounting and financial reporting by governments that provide Other Post-Employment Benefits (OPEB) to their employees. The requirements of this Statement improves information provided by government employers about financial support for OPEB and is a result of a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision –useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency.

NOTE 20: PRIOR PERIOD ADJUSTMENTS

The prior period adjustment on the Statement of Activities is the result of the completion of the Connecting 28th/24th Avenue South project and analysis of Construction Work in Progress prior to capitalization. It was found that portions of the project were charged to other agencies (\$3,574,637) as service provided and work performed and the resulting assets did not belong to the City. Therefore, the asset should not have been a part of the Construction in Progress and should have been charged to the period in which the work was performed. The result of the restatement reduces the Investment in Capital Assets on the Statement of Net Position for Governmental Activities.



Other prior year adjustments consist of a refund (\$8,118) from the Regional Animal Services of King County for a 2017 bill reconciliation and a payment (\$38,731) from the Puget Sound Regional Fire Authority for services provided in December of 2017. The Port of Seattle billed the City in mid-2018 for Surface Water Fees that should have been billed to the City in April of 2017 (\$32,475) and unclaimed property from 2016 was sent to the State of Washington (\$195). The result of the restatement increases the Unrestricted Net Position on the Statement of Net Position for Governmental Activities.

In the Surface Water Management Fund, a Surface Water Fee accrual was processed twice in 2013 leaving a balance in Due to Other Governments that was not owed (\$9,074). The result of the restatement decreases the liability and increases Unrestricted Net Position on the Statement of Net Position for Business-Type Activities.

**Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
For the Year Ended December 31, 2018**

	2017-2018 Biennial Budget Amounts		Actual Amounts	Variance with
	Original	Final		Final Budget- Positive (Negative)
Revenues				
Taxes	\$ 59,664,000	\$ 59,664,000	\$ 70,832,658	\$ 11,168,658
Licenses & permits	3,157,263	3,157,263	4,541,155	1,383,892
Intergovernmental & contributions	2,161,840	2,159,840	2,292,915	133,075
Charges for services	2,969,456	3,196,056	4,038,706	842,650
Fines and forfeitures	741,320	741,320	875,106	133,786
Investment & other earnings	105,000	105,000	475,202	370,202
Rent & leases	439,000	439,000	514,106	75,106
Miscellaneous	51,100	76,100	148,244	72,144
Total Revenues	69,288,979	69,538,579	83,718,092	14,179,513
Expenditures				
Current:				
Judicial	1,484,289	1,485,889	1,269,528	216,361
General Government	13,967,898	18,336,048	16,701,074	1,634,974
Public Safety	45,228,429	45,286,374	43,867,163	1,419,211
Transportation	366,102	366,102	272,053	94,049
Health & Human Services	1,688,839	1,688,839	1,525,920	162,919
Physical & Economic Environment	4,124,275	4,414,490	3,953,225	461,265
Culture & Recreation	6,832,756	6,832,756	7,051,910	(219,154)
Debt Service:				
Interest	-	-	-	-
Capital outlay	100,000	48,400	12,562	35,838
Total Expenditures	73,792,587	78,458,898	74,653,435	3,805,462
Excess (deficiency) of revenues over (under) expenditures	(4,503,608)	(8,920,319)	9,064,657	17,984,975
Other Financing Sources (Uses)				
Transfers in	4,446,675	4,446,675	2,606,679	(1,839,996)
Transfers out	(143,239)	(190,964)	(79,264)	111,700
Disposal & ins-capital assets	-	-	-	-
Total Other Fin Sources (Uses)	4,303,436	4,255,711	2,527,415	(1,728,296)
Net Change in Fund Balances	(200,172)	(4,664,608)	11,592,072	16,256,679
Fund Balances-January 1, 2017	17,471,668	17,471,668	17,471,668	-
Fund Balances-December 31, 2018	<u>\$ 17,271,496</u>	<u>\$ 12,807,061</u>	<u>\$ 29,063,740</u>	<u>\$ 16,256,679</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, 2018**

	General Fund Budgetary Basis - Actual Amounts	Port of Seattle ILA	Transit Planning
Revenues			
Taxes	\$ 70,832,658	\$ -	\$ -
Licenses & permits	4,541,155	-	-
Intergovernmental	2,292,915	1,456,540	-
Charges for services	4,038,706	-	-
Fines & forfeitures	875,106	-	-
Investment & other earnings	475,202	31,041	4,813
Net Change in FV of investments	-	(284)	-
Rent & leases	514,106	-	-
Miscellaneous	148,244	-	-
Total Revenues	83,718,092	1,487,297	4,813
Expenditures			
Current:			
Judicial	1,269,528	-	-
General Government	16,701,074	230,557	-
Public Safety	43,867,163	809,298	-
Transportation	272,053	-	-
Health & Human Services	1,525,920	-	-
Physical & Economic Env	3,953,225	-	-
Culture & Recreation	7,051,910	45,000	-
Debt service:			
Interest	-	-	-
Capital outlay	12,562	-	-
Total Expenditures	74,653,435	1,084,855	-
Excess (deficiency) of revenues over (under) expenditures	9,064,657	402,442	4,813
Other Financing Sources (Uses)			
Transfers in	2,606,679	-	-
Transfers out	(79,264)	-	-
Disposal & ins-capital assets	-	-	-
Total Other Fin Sources (Uses)	2,527,415	-	-
Net Change in Fund Balances	11,592,072	402,442	4,813
Fund Balances-Beginning*	17,125,857	1,458,959	362,187
Fund Balances-Ending	<u>\$ 28,717,929</u>	<u>\$ 1,861,401</u>	<u>\$ 367,000</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				General Fund GAAP Basis - Actual Amounts	Net Change - Increase (Decrease)
	Building Management	Facility Repair & Replacement	Eliminate Transfers & Spec Item Adj	Eliminate 2017 Actuals		
Revenues						
Taxes	\$ -	\$ -	\$ -	\$ (33,644,877)	\$ 37,187,781	\$ (33,644,877)
Licenses & permits	-	-	-	(1,674,173)	2,866,982	(1,674,173)
Intergovernmental	-	-	-	(1,183,590)	2,565,865	272,950
Charges for services	-	-	-	(1,556,706)	2,482,000	(1,556,706)
Fines & forfeitures	2,769	-	-	(588,821)	289,054	(586,052)
Investment & other earnings	44,760	-	-	(144,178)	411,638	(63,564)
Net Change in FV of investmer	(426)	-	-	-	31,870	31,870
Rent & leases	1,041,608	-	-	(220,036)	1,335,678	821,572
Miscellaneous	249,943	-	-	(107,035)	291,151	142,908
Total Revenues	1,338,653	-	-	(39,119,416)	47,462,019	(36,256,073)
Expenditures						
Current:						
Judicial	-	-	-	(634,863)	634,665	(634,863)
General Government	647,724	-	-	(10,138,787)	7,440,568	(9,260,506)
Public Safety	-	-	-	(21,558,627)	23,117,834	(20,749,329)
Transportation	-	-	-	(125,447)	146,606	(125,447)
Health & Human Services	-	-	-	(826,903)	699,017	(826,903)
Physical & Economic Env	-	-	-	(1,895,041)	2,058,184	(1,895,041)
Culture & Recreation	-	-	-	(3,357,515)	3,739,395	(3,312,515)
Debt service:					-	-
Interest	-	-	-	-	-	-
Capital outlay	89,921	-	-	-	102,483	89,921
Total Expenditures	737,645	-	-	(38,537,183)	37,938,752	(36,714,683)
Excess (deficiency) of revenues over (under) expenditures	601,008	-	-	(582,233)	9,523,267	458,610
Other Financing Sources (Uses)						
Transfers in	-	-	(423,753)	(1,321,012)	861,914	(1,744,765)
Transfers out	-	-	(16,436)	-	(95,700)	(16,436)
Disposal & ins-capital assets	-	-	-	-	-	-
Total Other Fin Sources (Uses)	-	-	(440,189)	(1,321,012)	766,214	(1,761,201)
Net Change in Fund Balances	601,008	-	(440,189)	(1,903,245)	10,289,481	(1,302,591)
Fund Balances-Beginning	3,147,562	-	-	(13,426,273)	24,435,783	2,054,061
Fund Balances-Ending	\$ 3,748,570	\$ -	\$ (440,189)	N/A	\$ 34,725,263	\$ 6,007,335

**Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
For the Year Ended December 31, 2018**

	2017-2018 Biennial Budget Amounts		Amounts*	Variance with
	Original	Final		Final Budget- Positive (Negative)
Revenues				
Taxes	\$ 16,056,970	\$ 16,056,970	\$ 19,622,496	\$ 3,565,526
Licenses & permits	6,750	6,750	69,152	62,402
Intergovernmental	1,617,563	1,617,563	1,658,930	41,367
Charges for services	61,100	61,100	301,218	240,118
Investment & other earnings	13,000	13,000	315,354	302,354
Rents & leases	13,800	13,800	13,800	-
Miscellaneous	40,000	40,000	12,005	(27,995)
Total Revenues	17,809,183	17,809,183	21,992,956	4,183,773
Expenditures				
Current:				
Public Safety	-	47,373	-	47,373
Transportation	7,159,758	7,087,043	6,053,314	1,033,729
Physical & Economic Environment	108,511	108,511	95,442	13,069
Capital Outlay:				
Transportation	1,925,000	3,700,430	3,189,100	511,330
Total Expenditures	9,193,269	10,943,357	9,337,856	1,605,501
Excess (deficiency) of revenues over (under) expenditures	8,615,914	6,865,826	12,655,100	5,789,274
Other Financing Sources (Uses)				
Transfers in	59,213	59,213	-	(59,213)
Transfers out	(6,661,669)	(8,233,465)	(8,150,102)	83,363
Disposal & ins-capital assets	-	-	-	-
Total Other Fin Sources (Uses)	(6,602,456)	(8,174,252)	(8,150,102)	24,150
Net Change in Fund Balances	2,013,458	(1,308,426)	4,504,998	5,813,424
Fund Balances-January 1, 2017	11,176,559	11,176,559	11,176,559	-
Fund Balances-December 31, 2018	<u>\$ 13,190,017</u>	<u>\$ 9,868,133</u>	<u>\$ 15,681,557</u>	<u>\$ 5,813,424</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, 2018**

	2017-2018 Biennial Budget Amounts		Actual Amounts*	Variance with
	Original	Final		Final Budget- Positive (Negative)
Revenues				
Taxes	\$ 2,960,200	\$ 2,960,200	\$ 2,979,164	\$ 18,964
Intergovernmental	6,000	6,000	40,275	34,275
Investment & other earnings	30,000	30,000	165,464	135,464
Miscellaneous	-	-	-	-
Total Revenues	<u>2,996,200</u>	<u>2,996,200</u>	<u>3,184,904</u>	<u>188,704</u>
Expenditures				
Current:				
Economic Environment	<u>2,288,051</u>	<u>2,288,051</u>	<u>2,140,530</u>	<u>147,521</u>
Total Expenditures	<u>2,288,051</u>	<u>2,288,051</u>	<u>2,140,530</u>	<u>147,521</u>
Excess (deficiency) of revenues over (under) expenditures	708,149	708,149	1,044,374	336,225
Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Other Fin Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	708,149	708,149	1,044,374	336,225
Fund Balances-January 1, 2017	<u>7,315,221</u>	<u>7,315,221</u>	<u>7,315,221</u>	<u>-</u>
Fund Balances-December 31, 2018	<u>\$ 8,023,370</u>	<u>\$ 8,023,370</u>	<u>\$ 8,359,595</u>	<u>\$ 336,225</u>

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

Schedule of Proportionate Share of the Net Pension Liability
PERS 1
As of June 30, 2018
Last 10 Fiscal Years*

	2018	2017	2016	2015
<u>Employer's proportion of the net pension liability (asset)</u>	0.070473%	0.067707%	0.075408%	0.080985%
<u>Employer's proportionate share of the net pension liability (asset)</u>	\$ 3,147,348	\$ 3,212,750	\$ 4,049,765	\$ 4,236,269
TOTAL	\$ 3,147,348	\$ 3,212,750	\$ 4,049,765	\$ 4,236,269
<u>Employer's covered employee payroll</u>	\$ 9,012,379	\$ 8,445,108	\$ 8,925,589	\$ 9,180,716
<u>Employer's proportionate share of the net pension liability as a percentage of covered employee payroll</u>	34.92%	38.04%	45.37%	46.14%
<u>Plan fiduciary net position as a percentage of the total pension liability</u>	63.22%	61.24%	57.03%	59.10%

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, 2018
Last 10 Fiscal Years*

	2018	2017	2016	2015
<u>Employer's proportion of the net pension liability (asset)</u>	0.090486%	0.085227%	0.095030%	0.102779%
<u>Employer's proportionate share of the net pension liability (asset)</u>	\$ 1,544,968	\$ 2,961,231	\$ 4,784,685	\$ 3,672,352
TOTAL	\$ 1,544,968	\$ 2,961,231	\$ 4,784,685	\$ 3,672,352
<u>Employer's covered employee payroll</u>	\$ 9,012,379	\$ 8,401,217	\$ 8,861,046	\$ 9,120,015
<u>Employer's proportionate share of the net pension liability as a percentage of covered employee payroll</u>	17.14%	35.25%	54.00%	40.27%
<u>Plan fiduciary net position as a percentage of the total pension liability</u>	95.77%	90.97%	85.82%	89.20%

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, 2018
Last 10 Fiscal Years*

	2018	2017	2016	2015
Employer's proportion of the net pension liability (asset)	0.006844%	0.006773%	0.006678%	0.006607%
Employer's proportionate share of the net pension liability (asset)	\$ (124,253)	\$ (102,761)	\$ (68,802)	\$ (79,629)
TOTAL	\$ -	\$ -	\$ -	\$ -
Employer's covered employee payroll	\$ -	\$ -	\$ -	\$ -
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	0.00%	0.00%	0.00%	0.00%
Plan fiduciary net position as a percentage of the total pension liability	144.42%	135.96%	123.74%	127.36%

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, 2018
Last 10 Fiscal Years*

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
<u>Statutorily or contractually required contributions</u>	\$ 492,576	\$ 441,631	\$ 407,177	\$ 420,763
<u>Contributions in relation to the statutorily or contractually required contributions</u>	\$ (492,576)	\$ (441,631)	\$ (407,177)	\$ (420,763)
<u>Contribution deficiency (excess)</u>	\$ -	\$ -	\$ -	\$ -
<u>Covered employer payroll</u>	\$ 9,727,931	\$ 8,951,382	\$ 8,451,107	\$ 9,168,456
<u>Contributions as a percentage of covered employee payroll</u>	5.06%	4.93%	4.82%	4.59%

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, 2018
Last 10 Fiscal Years*

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
<u>Statutorily or contractually required contributions</u>	\$ 729,605	\$ 612,700	\$ 622,456	\$ 531,326
<u>Contributions in relation to the statutorily or contractually required contributions</u>	\$ (729,605)	\$ (612,700)	\$ (622,456)	\$ (531,326)
<u>Contribution deficiency (excess)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<u>Covered employer payroll</u>	\$ 9,727,931	\$ 8,907,491	\$ 8,385,928	\$ 9,104,496
<u>Contributions as a percentage of covered employee payroll</u>	7.50%	6.88%	7.42%	5.84%

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, 2018
Last 10 Fiscal Years*

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</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>\$ -</u>
<u>Covered employer payroll</u>	\$ -	\$ -	\$ -	\$ -
<u>Contributions as a percentage of covered employee payroll</u>	0.00%	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.*

Schedule of Changes in Total OPEB Liability and Related Ratios
LEOFF 1 Retirees
As of December 31, 2018
Last 10 Fiscal Years*

	2018
Total OPEB liability - beginning	\$ 1,973,496
Service cost	-
Interest	69,307
Changes in benefit terms	-
Changes in Experience Data and Assumptions	(56,554)
Benefit payments	(17,870)
Other changes	
Total OPEB liability - ending	\$ 1,968,379
 Covered-employee payroll	-
 Total OPEB liability as a % of covered payroll	-

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.*

City of SeaTac
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2018

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Passed through to Subrecipients	Note
				From Pass- Through Awards	From Direct Awards	Total		
FOREST SERVICE, AGRICULTURE, DEPARTMENT OF (via WA STATE DEPT OF NATURAL RESOURCES)	Cooperative Forestry Assistance	10.664	ARBOR DAY EVENT-2018	500	-	500	-	1
CDBG - Entitlement Grants Cluster								
ASSISTANT SECRETARY FOR COMMUNITY PLANNING AND DEVELOPMENT, HOUSING AND URBAN DEVELOPMENT, DEPARTMENT OF (via KING COUNTY HOUSING & COMMUNITY DEVELOPMENT PROGRAM)	Community Development Block Grants/Entitlement Grants	14.218	5041515 TUKWILA/SEAT AC JOINT MINOR HOME REPAIR	16,183	-	16,183	-	1
				16,183	-	16,183	-	
Highway Planning and Construction Cluster								
FEDERAL HIGHWAY ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF (via WA STATE DEPT OF TRANSPORTATION)	Highway Planning and Construction	20.205	SRTS-1139 (006)	725,151	-	725,151	-	1
				725,151	-	725,151	-	
Highway Safety Cluster								
NATIONAL HIGHWAY TRAFFIC SAFETY ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF (via WA State Traffic Safety Commission)	National Priority Safety Programs	20.616	TARGET ZERO	24,993	-	24,993	-	1
				24,993	-	24,993	-	
				24,993	-	24,993	-	

The accompanying notes are an integral part of this schedule.

City of SeaTac
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2018

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Passed through to Subrecipients	Note
				From Pass- Through Awards	From Direct Awards	Total		
FEDERAL EMERGENCY MANAGEMENT AGENCY, HOMELAND SECURITY, DEPARTMENT OF (via WA STATE MILITARY DEPT)	Emergency Management Performance Grants	97.042	E18-110	15,792	-	15,792	-	
Total Federal Awards Expended:				782,619	-	782,619	-	

The accompanying notes are an integral part of this schedule.

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2018

NOTE 1 – BASIS OF ACCOUNTING

This schedule is prepared on the same basis of accounting as the City's government-wide financial statements. The City uses the accrual basis of accounting.

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	
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