



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

City of Sammamish

King County

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

Published August 2, 2018

Report No. 1021744





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

August 2, 2018

Mayor and City Council
City of Sammamish
Sammamish, Washington

Report on Financial Statements

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

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

Sincerely,

Pat McCarthy
State Auditor
Olympia, WA

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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

City of Sammamish King County January 1, 2017 through December 31, 2017

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

Audit Period: January 1, 2016 – December 31, 2016	Report Ref. No.: 1019505	Finding Ref. No.: 2016-001
Finding Caption: The City's internal controls were not adequate when valuing contributed assets.		
Background: The City recorded a capital asset contribution because it annexed the Klahanie neighborhood from King County. The annexation consisted of transferring ownership of assets including land, streets and storm water systems. The Governmental Accounting Standards Board Statement No. 69 requires all annexed assets to be valued at carrying value of the transferring government. The City attempted to obtain the values from King County. However, was unable to obtain the values in a timely manner to ensure that the annexation, an unusual transaction for the City, was properly valued and recorded. Therefore, the City performed research to determine values for each asset acquired. The City valued the assets at fair market value and did not detect errors in its calculations. Also, the City did not adjust the values to record the assets at the estimated carrying value. Our audit of the City's financial statements identified the following errors related to the recording of the contributed assets:		
<ul style="list-style-type: none"> • Governmental activities revenue and capital assets were overstated by \$302,502,662. • Business type activities revenue and capital assets were overstated by \$17,624,456. • Storm Water Fund revenue and capital assets were overstated by \$17,624,456. • Governmental activities depreciation expense was overstated by \$3,614,975. • Business type activities depreciation expense was overstated by \$409,871. • Storm Water Fund depreciation expense was overstated by \$389,134. 		

Status of Corrective Action: (check one)

- Fully Corrected Partially Corrected Not Corrected Finding is considered no longer valid

Corrective Action Taken:

The City has a new process in place to ensure that one-time or unusual transactions are handled in accordance with GAAP. All material transactions that are not usual or recurring are segregated and research is undertaken to ensure that proper accounting treatment is applied. Specific GAAP training is being required for staff involved in CAFR preparation. A more collaborative approach is taken when booking unusual transactions, instead of relying on a single staff member. Future plans include an additional finance staff member, to add to the depth of knowledge possessed by staff.

**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 Sammamish
King County
January 1, 2017 through December 31, 2017**

Mayor and City Council
City of Sammamish
Sammamish, 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, each major fund and the aggregate remaining fund information of the City of Sammamish, King County, Washington, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 28, 2018.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

June 28, 2018

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

City of Sammamish King County January 1, 2017 through December 31, 2017

Mayor and City Council
City of Sammamish
Sammamish, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Sammamish, King County, Washington, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed on page 11.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Sammamish, as of December 31, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information listed on page 11 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

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

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

June 28, 2018

FINANCIAL SECTION

**City of Sammamish
King County
January 1, 2017 through December 31, 2017**

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2017

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2017

Statement of Activities – 2017

Balance Sheet – Governmental Funds – 2017

Reconciliation of Total Governmental Funds Balances to Net Position of Governmental
Activities – 2017

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

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

Statement of Net Position – Proprietary Funds – 2017

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

Statement of Cash Flows – Proprietary Funds – 2017

Notes to the Financial Statements – 2017

REQUIRED SUPPLEMENTARY INFORMATION

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

Schedule of the City's Proportionate Share of the Net Pension Liability – PERS 1,
PERS 2/3 – 2017

Schedule of City's Contributions – PERS 1, PERS 2/3 – 2017

Notes to Required Supplementary Information

MANAGEMENT'S DISCUSSION AND ANALYSIS

This narrative provides an overview and analysis of the City of Sammamish's financial activities for the fiscal year ended December 31, 2017. The purpose is to highlight significant financial issues, major financial activities, and resulting changes in financial position, as well as economic factors affecting the City. Readers are encouraged to consider the information presented here in conjunction with the information furnished in the letter of transmittal in the introductory section and the City's financial statements and accompanying notes following the narrative.

Financial Highlights

- The City ended the year in a strong financial position, with total assets and deferred outflows exceeding total liabilities and deferred inflows by \$628.6 million, an increase of \$21.8 million over the 2016 ending net position. Approximately 70% of this increase is attributable to the acquisition of capital assets.
- During 2017, the City saw an increase in tax revenues of \$1.9 million, of which the biggest increase was from real estate excise taxes at \$718,000. Investment interest earnings increased \$692,000, more than doubling 2016 earnings. Total expenses grew a modest \$2.8 million since the prior year.

Overview of the Financial Statements

This discussion and analysis serves as an introduction to the City's basic financial statements which are presented in three parts: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. Other supplementary information in addition to the basic financial statements is also contained in this report.

Government-wide financial statements

The government-wide financial statements are designed to provide the reader with a broad overview of the City's finances, similar to the financial reporting of private-sector businesses.

The *Statement of Net Position* presents information on all of the City's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, showing the difference between assets and deferred outflows, and liabilities and deferred inflows of resources as net position. Over time, increases or decreases in net position may be one indicator of whether the financial health of the City is improving or deteriorating.

The *Statement of Activities* presents information showing how the City's net position changed during the year. The net cost of each governmental and business-type activity is reported separately from taxes and other sources of revenue not related to a specific function. Activity on this statement is reported on the accrual basis of accounting, meaning that revenues are reported when they are earned and expenses are reported when they are incurred, regardless of the timing of the cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes, unpaid vendor invoices, and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or most of their costs through user fees and charges (*business-type activities*). Governmental activities include general government (finance and administrative services), security (police and fire), physical and economic environment, transportation, mental/physical health, and culture and recreation. The City has one business-type activity, a surface water management utility.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or to meet certain objectives. The City, like other state and local governments, uses fund accounting to demonstrate compliance with finance-related and legal requirements. The City's funds are divided into two categories: governmental funds and proprietary funds.

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

Because the focus of the governmental funds is narrower than that of the government-wide statements, it is useful to compare similar information in the governmental fund statements and the government-wide statements. In doing so, the reader may better understand the long term impact of the City's current year financing decisions. Both the Governmental Funds Balance Sheet and the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains five governmental funds. Information is presented separately in the Governmental Funds Balance Sheet and in the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances for the General Fund, the General Capital Improvement Fund, the Parks Capital Improvement Fund and the Transportation Capital Improvement Fund, all of which are considered to be major funds. Data from the G.O. Debt Service Fund is shown in a column labeled Non-major Fund.

The City maintains budgetary control over its operating funds through the adoption of a biennial budget. Budgets are adopted at the fund level and according to state law. A budgetary comparison statement is presented for the General Fund as required supplementary information. Other budgetary comparison schedules are included in the Fund Financial Statements and Schedules sections of this report.

Proprietary funds are used by governments to account for their business-type activities. Business-type activities provide specific goods or services to a group of customers that are paid for by fees charged to those customers.

The City has two types of proprietary funds. 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 funds of the City are used to report the same functions presented as business-type activities in the government-wide statements with the fund statements providing more detail than is reported in the government-wide statements. The enterprise fund statements provide information for the City's storm water utility operating and capital activities.

Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to accumulate funds for vehicle replacement, account for vehicle maintenance, to account for insurance premiums and claims, and to account for information technology activities. Internal service funds benefit both governmental and business-type activities and are allocated accordingly in the government-wide statement of activities. Internal service fund assets and liabilities are predominantly governmental and have been included in the governmental activities column of the government-wide statement of net position.

Notes to the financial statements

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

Other information

The combining statements for other governmental funds and internal service funds are presented immediately following the notes section.

Government-wide Financial Analysis

Statement of net position

The City's financial condition remained good during 2017, despite only moderate economic expansion. As noted earlier, net position may serve as a useful indicator of the City's financial situation. The City's net position at December 31, 2017 totaled \$606.8 million, an increase of \$92.0 million over 2016. Net position of the City as of December 31, 2017 is summarized and analyzed below.

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
	(in thousands)					
Current and other assets	\$ 90,162	\$ 82,827	\$ 6,597	\$ 6,768	\$ 96,759	\$ 89,595
Capital assets, net of accumulated depreciation	492,767	480,839	54,508	51,441	547,275	532,280
Total assets	582,929	563,666	61,105	58,209	644,035	621,875
Deferred outflows	983	1,194	143	171	1,125	1,365
Total deferred outflows	983	1,194	143	171	1,125	1,365
Long-term liabilities	7,386	9,041	918	1,105	8,304	10,146
Other liabilities	6,591	5,455	608	556	7,200	6,011
Total liabilities	13,978	14,496	1,526	1,661	15,504	16,157
Deferred inflows	941	224	135	29	1,076	253
Total deferred inflows	941	224	135	29	1,076	253
Net position						
Net investment in capital assets	490,634	478,172	54,508	51,441	545,142	529,613
Restricted	17,617	14,865	-	-	17,617	14,865
Unrestricted	60,742	57,101	5,079	5,250	65,821	62,351
Total net position	\$ 568,993	\$ 550,139	\$ 59,587	\$ 56,691	\$ 628,580	\$ 606,830

Governmental Activities: Net position from governmental activities increased by \$21.2 million in 2017, for a total of \$569.0 million. Of total governmental activities net position, \$17.6 million is restricted for capital projects. Unrestricted net position of \$60.7 million are available to meet ongoing obligations to citizens and creditors. Factors contributing to the changes are as follows:

- Of the increase in governmental activities, \$12.0 million was from the acquisition of capital assets. On January 1, 2017, the City accepted title of a donated parcel of land valued at \$4.0 million. Construction in progress added an additional \$9.5 million, with half of that amount related to the redesign and construction of Snake Hill Road. \$3.1 million was spent on parks projects, \$2.6 million of which was the construction of the Sammamish Landing Park. Developer contributions added \$1.7 million in land and infrastructure improvements and the City purchased \$928,000 of new vehicles in 2017. These additions were partially offset by depreciation expense of \$8.0 million.
- Total liabilities and deferred inflows increased by \$198,000. The increase consists of a rise in the City's payable and customer deposit accounts of \$1.1 million and a \$717,000 increase in deferred inflows related to pensions. These increases are offset by a decrease in debt and pension obligations of \$1.7 million.

Business-type Activities: Business-type activities of the City’s surface water fund increased the City’s net position by \$2.9 million in 2017. Of total net position of \$59.6 million, \$5.1 million is available to meet ongoing operating needs. Factors contributing to the increase were:

- The largest component of the increase was the result of capital assets contributed by developers of \$1.3 million and construction in progress of \$2.9 million, offset by current depreciation expense for a net increase of \$1.3 million.
- Total liabilities and deferred inflows saw a slight decrease of \$29,000. The decrease consists of \$187,000 in long-term debt and pension liabilities, offset by an increase in deferred inflows related to pensions of \$106,000 and an increase in accounts payable of \$52,000

Changes in position

As illustrated in the following table, the City’s net position increased approximately \$21.8 million in 2017. The increase was split between the governmental activities (\$18.9 million) and the business-type activities (\$2.9 million).

The table below provides condensed information on revenues, expenses, and changes in net position with governmental and business-type activities shown separately.

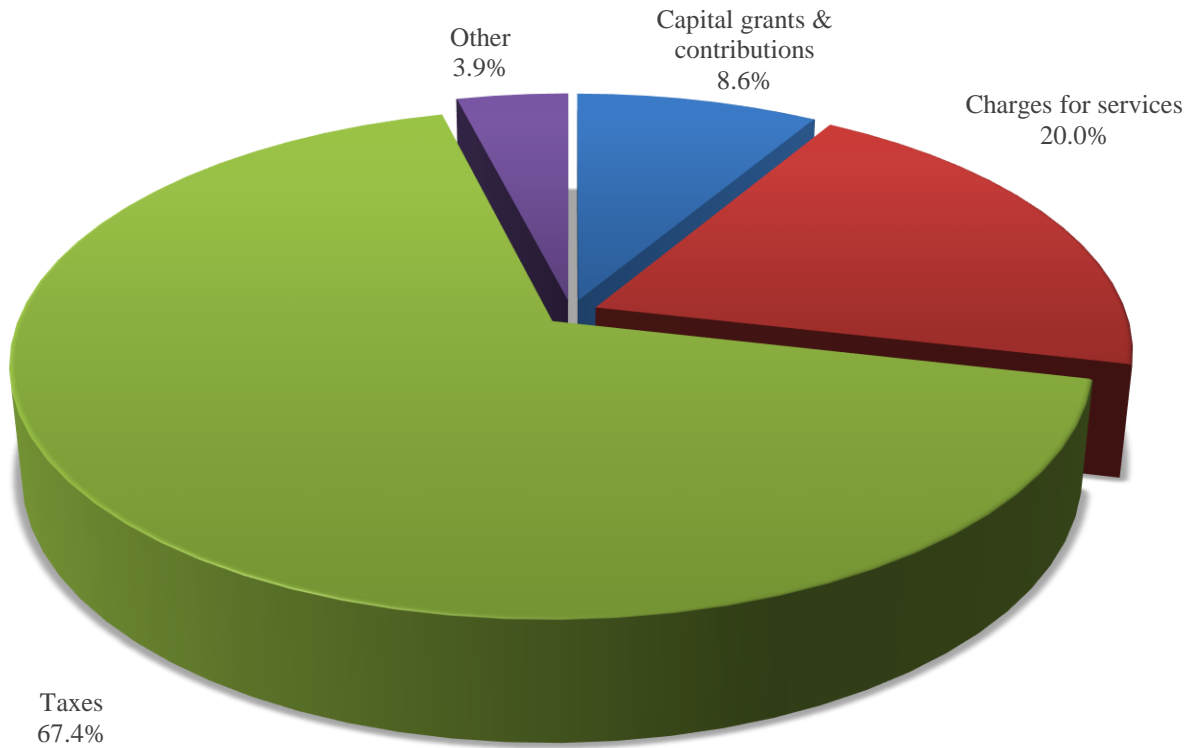
	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
	(in thousands)					
Revenues:						
Program revenues:						
Charges for services	\$ 13,419	\$ 13,332	\$ 5,075	\$ 4,706	18,494	\$ 18,038
Operating grants & contributions	734	197	291	1,116	1,025	1,312
Capital grants & contributions	5,732	70,419	2,098	7,697	7,830	78,115
General revenues:						
Property taxes	27,899	27,393	-	-	27,899	27,393
Sales taxes	7,540	6,949	-	-	7,540	6,949
Real estate excise taxes	7,304	6,586	-	-	7,304	6,586
Other taxes	2,400	2,323	-	-	2,400	2,323
Investment interest	1,168	504	73	46	1,242	550
Miscellaneous	740	613	(76)	25	664	638

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
			(in thousands)			
Expenses:						
General government	9,533	8,130	-	-	9,533	8,130
Security	14,743	14,276	-	-	14,743	14,276
Physical environment	1,490	1,192	-	-	1,490	1,192
Economic environment	3,854	3,305	-	-	3,854	3,305
Transportation	10,587	10,731	-	-	10,587	10,731
Mental/physical health	16	12	-	-	16	12
Culture and recreation	7,846	7,522	-	-	7,846	7,522
Interest on long-term debt	12	15	-	-	12	15
Stormwater	-	-	4,566	4,701	4,566	4,701
Total expenses	<u>48,081</u>	<u>45,182</u>	<u>4,566</u>	<u>4,701</u>	<u>52,647</u>	<u>49,882</u>
Increase in net position before transfers and special items	<u>18,855</u>	<u>83,135</u>	<u>2,896</u>	<u>8,887</u>	<u>21,751</u>	<u>92,022</u>
Transfers	<u>107</u>	<u>-</u>	<u>(107)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Increase in net position	18,962	83,135	2,789	8,887	21,751	92,022
Net position - beginning	<u>550,139</u>	<u>467,004</u>	<u>56,691</u>	<u>47,803</u>	<u>606,830</u>	<u>514,807</u>
Net position - ending	<u>\$ 569,101</u>	<u>\$ 550,139</u>	<u>\$ 59,479</u>	<u>\$ 56,691</u>	<u>\$ 628,580</u>	<u>\$ 606,830</u>

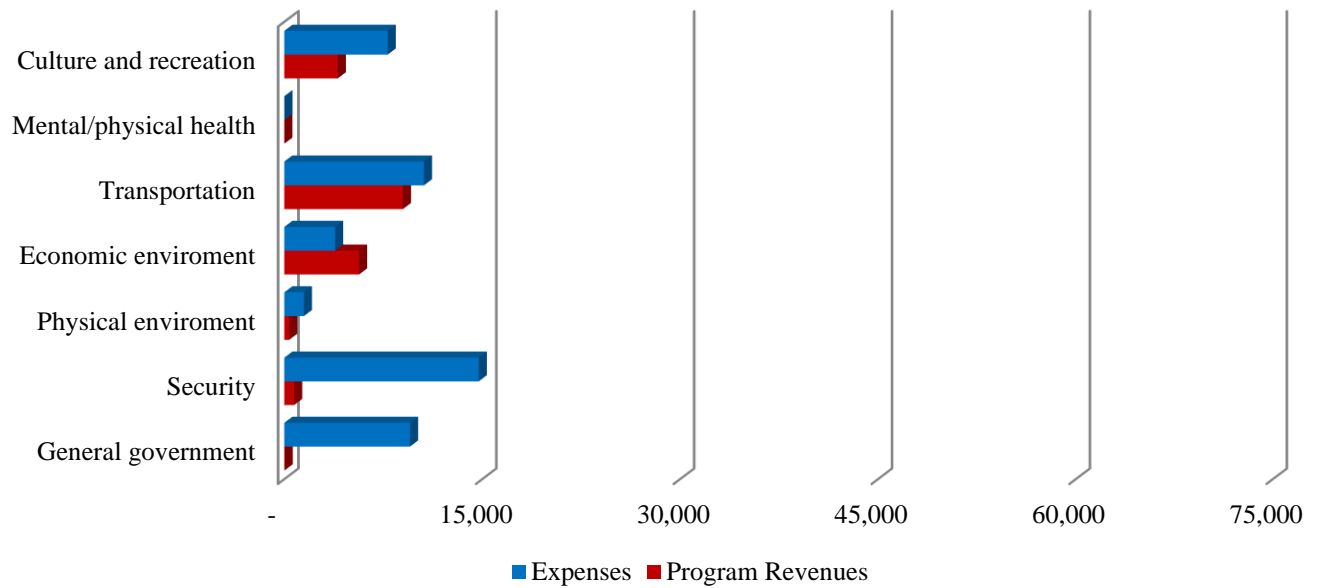
Governmental activities increased the City’s net position by \$18.9 million in 2017, which accounts for 86.7% of the total increase in net position of the City. Most of the increase in net position is attributable to the addition of capital assets. Total revenues decreased by approximately 47.8%, while total expenses were 6.4% higher than in 2016. Key elements of the changes in governmental activities net position are:

- Capital contributions fell from the prior year by \$64.7 million. This is due to the one-time revenue associated with the Klahanie neighborhood annexation in 2016.
- Tax revenues saw a modest increase of \$1.9 million, with the largest portion attributable to real estate excise taxes, equal to \$718,000.
- Total expenses for governmental activities grew by \$2.9 million in 2017. The largest component was from general government activities, which grew by \$1.4 million. This is mainly the result of an increase in general government staffing necessary to keep pace with the growth of the City from both development and the annexed Klahanie neighborhood. The next largest increase was in expenditures related to economic environment, at \$549,000 over 2016. This increase is tied to the development and implementation of an in-house electrical inspection program, as well as contracted plan review and building inspection services to keep pace with development, including a new, large-scale commercial area.

Revenue by Source - Governmental Activities



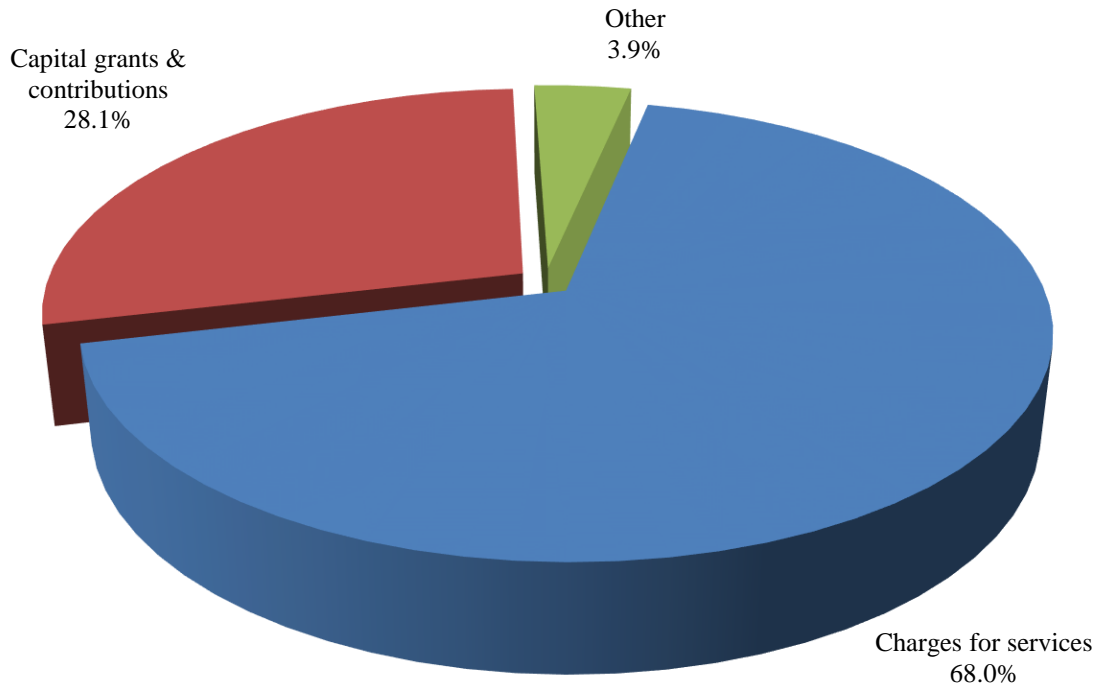
Expenses and Program Revenues - Governmental Activities (in thousands)



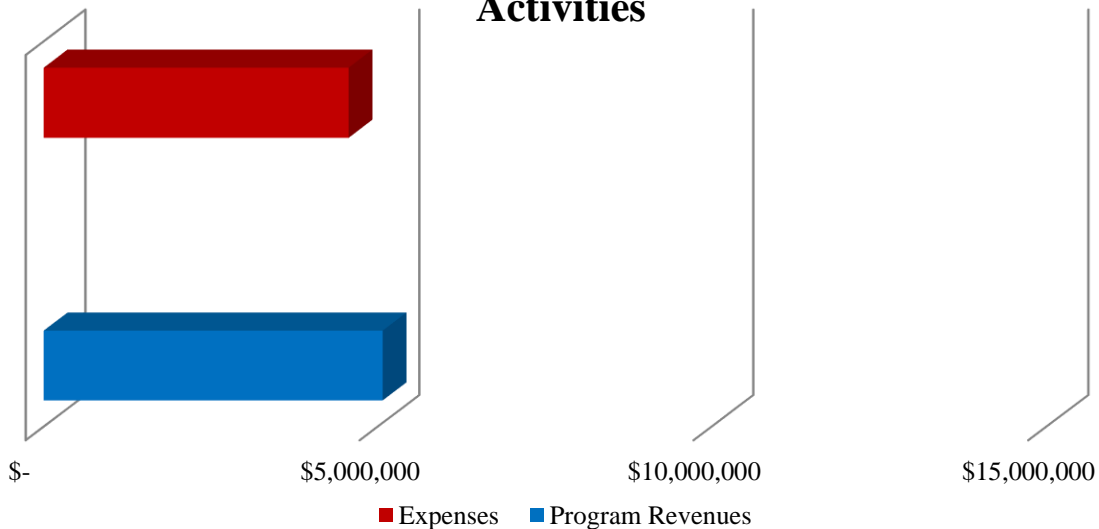
Business-type activities increased the City’s net position by \$2.9 million, accounting for 13.3% of the total growth. Total revenues decreased by approximately 45.1%, while total expenses were about 3.0% lower than in 2016. Key elements of the changes in business-type activities net position are:

- Revenues in 2017 fell by \$6.1 million over the prior year. This decrease is due to a one-time capital contribution in 2016, which was a result of annexing the Klahanie neighborhood to the City.
- Expenses were also lower in 2017, by \$135,000. Which is largely due to expenses related to the stormwater comprehensive plan update, which took place during 2016.

Revenue by Source - Business Type Activities



Expenses and Program Revenues - Business Type Activities



Financial Analysis of the Government's Funds

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

Governmental funds

The focus of the City's governmental funds is to provide information on near term inflows, outflows, and balances of spendable resources. This information helps determine the City's financial requirements in the near future. In particular, fund balance is a good indicator of the City's resources available at the end of the year.

At the end of the current year, the City's governmental funds reported combined ending fund balances of \$81.5 million. This was an increase of \$6.4 million or 8.54% over the ending fund balances of the prior year. Of the ending fund balances, \$4.2 million has been set aside for a strategic reserve, and the remaining \$77.3 million is available for ongoing City operations and initiatives.

The General fund is the primary operating fund of the City. Receipts and payments of ordinary city operations are processed through the General fund, unless they are required to be accounted for in another fund. Taxes are the major revenue source. At the end of 2017, the fund balance of the General fund was \$33.0 million.

The general fund balance increased \$3.9 million from the prior year. Revenues increased 4.61% while expenditures increased 15.82% and transfers-out doubled from 2016. Revenues exceeded expenditures in the general fund by \$5.4 million in 2017. Net transfers out of the general fund to capital projects funds totaled \$1.55 million.

General fund revenues were \$2.0 million higher in 2017 than in 2016. Property taxes, which increased approximately \$531,000 million, are the primary source of revenue in the General Fund, at 59.8% of the fund's 2017 revenues. An increase in local sales and use tax of \$485,000 and an increase in real estate excise tax of \$718,000, in addition to the increase in property tax collections, accounts for a majority of the growth in tax revenues.

General Fund expenditures were up \$5.6 million in 2017. Transportation expenditures increased by \$2.0 million in 2017. The increase is attributable to increasing maintenance and overlay costs, particularly related to the area annexed by the City in the prior year. Expenditures for general government increased by \$2.0 million, this was largely due to increases in legal expenditures, repair and maintenance of facilities, and general administrative activities. Economic environment expenditures increased by \$498,000, associated costs related to development activity. The remaining functions had a combined increase in expenditures of \$884,000.

General Fund expenditures are closely monitored with all departments working together to limit their expenditures with minimal impact on currently provided public services. The City's total budgeted positions increased by 24.75 full-time equivalents, to a total of 114.75. City staff received a cost of living increase of 2.44% in 2017.

Ending fund balance in the General Capital Improvement Fund increased \$364,000. There are currently no active or planned construction projects in this fund.

Ending fund balance in the Parks Capital Improvement Fund increased \$5.2 million. Total park capital expenditures for the year were \$2.3 million, a majority of which paid for the completion of a waterfront park, and the replacement of artificial turf on several City owned fields.

The Transportation Capital Improvement Fund ending fund balance was \$26.9 million, a decrease of \$3.0 million from 2016. Expenditures of \$10.8 million were spent largely on several road improvement designs and construction. Traffic impact fees of \$2.8 million and real estate excise taxes of \$3.7 million made up a majority of the \$7.1 million in fund revenues for 2017.

Proprietary funds

The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. Factors concerning the finances of the City's proprietary funds have already been addressed in the discussion of the City's business-type activities.

General Fund Budgetary Highlights

The City of Sammamish budgets on a biennial basis with each budget beginning in an odd numbered year in compliance with state law. The differences between the original 2017-2018 general fund budget adopted at the end of 2016 and the 2017-2018 biennial general fund budget at December 31, 2017 are as follows:

Revenues increased/ (decreased) in the following categories:

- Beginning Fund Balance \$ 7,905,326
- Taxes \$ 50,000
- Intergovernmental \$ 35,000
- Charges for Goods & Services \$ (64,300)

A higher than expected actual ending fund balance in 2016 allowed for an increase to the General Fund budget beginning balance for 2017.

Expenditure increases/ (decreases) occurred in various functional areas and were as follows:

- Ending Fund Balance \$ 4,043,528
- General Government \$ 812,450
- Security \$ 363,300
- Economic Development \$ 336,650
- Culture & Recreation \$ 14,770
- Physical Environment \$ (128,300)

The increase in budget across nearly all functions is a result of the general expansion of government services offered. Beginning and ending fund balances were adjusted upwards due to revenues being higher than forecasted, while realizing savings on expenditures on 2017.

Capital Asset and Debt Administration

Capital assets

The City of Sammamish's investment in capital assets for its governmental and business-type activities as of December 31, 2017 was \$547.3 million (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, art, construction in progress, utility transmission/distribution systems, roads, and bridges.

Major capital assets changes during 2017 included the following:

- \$15.3 million in added assets consist of construction in progress, of which \$10.4 million is transportation related activity, including \$5.0 million for the redesign of Snake Hill Road. Another \$2.9 million is construction of stormwater facilities.
- Developer and private contributions of \$6.8 million in land, streets, and surface water facilities.
- \$2.9 million dollars was closed out of construction in progress due to the completion of Sammamish Landing Park, and the City purchased \$835,000 of new vehicles (net of depreciation) during 2017.

City of Sammamish's capital assets (net of depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
	(in thousands)					
Land	\$ 301,395	\$ 296,269	\$ 13,582	\$ 13,391	\$ 314,977	\$ 309,661
Buildings/building improvements	43,411	45,345	1,300	1,364	44,712	46,709
Improvements other than buildings	17,340	16,815	33,957	34,031	51,297	50,846
Machinery & equipment	2,573	2,049	116	19	2,688	2,068
Construction in progress	15,803	6,311	5,553	2,636	21,357	8,947
Art	91	91	-	-	91	91
Software	71	74	-	-	71	74
Infrastructure	112,083	113,884	-	-	112,083	113,884
Total	<u>\$ 492,767</u>	<u>\$ 480,839</u>	<u>\$ 54,508</u>	<u>\$ 51,441</u>	<u>\$ 547,275</u>	<u>\$ 532,280</u>

Additional information on the City of Sammamish's capital assets can be found in Note 6 of this report.

Long-term debt

At the end of the current fiscal year, the City had debt outstanding of \$2.2 million. Of this amount, \$2.2 million is a State of Washington Public Works Trust Fund Loan and \$109,000 is revenue debt, which was inherited from King County at incorporation in 1999.

General obligation and revenue debt

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
	(in thousands)					
General obligation debt	\$ 2,133	\$ 2,667	\$ -	\$ -	\$ 2,133	\$ 2,667
Revenue debt	-	-	109	151	109	151
Total	<u>\$ 2,133</u>	<u>\$ 2,667</u>	<u>\$ 109</u>	<u>\$ 151</u>	<u>\$ 2,243</u>	<u>\$ 2,818</u>

The City was not rated by Standard & Poors in 2017 due to the fact the City has no outstanding bond obligations.

Washington State law limits the amount of general obligation debt the City may issue to 5.0% of its total assessed valuation, subject to a 60% majority vote of qualified electors. Of the 5.0% limit, 2.5% is for general purposes and 2.5% for open space/park facilities. Non-voted (limited tax) general obligation indebtedness is limited to 1.5% of assessed valuation. The combination of unlimited tax and limited tax general obligation debt for all purposes cannot exceed 5.0% of assessed valuation. The City's assessed valuation for 2017 was \$14,514,101,138 and remaining debt capacity is as follows:

General	\$ 360,719,195
Open Space/Park Facilities	<u>362,852,528</u>
Total	<u>\$ 723,571,724</u>

The total amount of unlimited tax and limited tax general obligation debt the City may issue is \$725,705,057. Additional information on the City of Sammamish's long-term debt can be found in Note 11 of this report.

Economic Factors and Next Biennium's Budget

Sammanish's operations are primarily funded by property taxes with few volatile sources of revenue that fund operating activities. By state law, the City may raise property taxes 1% per year plus the property taxes on new construction. To minimize the impact of tax increases on its citizens, the City chose not to exercise that option for 2017, but instead banked (reserved) this taxing capacity for future years. To control fixed costs during economic ups and downs, the City operates with a lean staff, contracting out for many municipal services such as police, fire, and some development review. The combination of a stable operating revenue source and limited permanent staff insulates the City somewhat from future economic slowdowns.

Two revenue sources dedicated to capital projects, real estate excise taxes and impact fees have shown continued growth since the low point in 2009, and are expected to continue to do so. Revenue from transportation impact fees in the 2017-2018 budget period is expected to rise by 60% compared to 2015-2016 levels, and it is anticipated that parks impact fees will more than double. Real estate excise tax revenues are forecasted to increase by 40%.

Sammanish has a history of excellent financial management and prudent fiscal policies. The 2017-2018 biennial budget maintains the City's strong financial position, with a projected ending fund balance of nearly \$24.0 million at the end of 2018. Adherence to good financial management practices and policies has served the City well and set the stage for a community that will thrive for many years to come.

Requests for Information

This financial report is designed to provide a general overview of the City of Sammanish's finances for readers with an interest in the government's finances. Questions concerning any of the information provided in this report, or requests for additional information, may be addressed to the Finance Director, City of Sammanish, 801 228th Ave SE, Sammanish, WA 98075.

CITY OF SAMMAMISH

STATEMENT OF NET POSITION

December 31, 2017

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 62,994,889	\$ 4,615,659	\$ 67,610,548
Cash with outside agencies	217,567	-	217,567
Investments	21,875,258	1,563,471	23,438,729
Receivables:			
Taxes	2,107,268	-	2,107,268
Accounts	372,715	518,552	891,267
Interest	318,600	22,771	341,371
Contracts	447,203	-	447,203
Due from other governments	113,000	7,281	120,281
Internal balances	130,572	(130,572)	-
Restricted assets:			
Deposit cash	1,584,950	-	1,584,950
Capital assets:			
Land, artwork, construction in progress	317,289,358	19,135,377	336,424,735
Depreciable capital assets, net	175,478,052	35,372,657	210,850,709
Total assets	<u>582,929,432</u>	<u>61,105,196</u>	<u>644,034,628</u>
DEFERRED OUTFLOWS			
Related to pensions	982,539	142,705	1,125,244
Total deferred outflows	<u>982,539</u>	<u>142,705</u>	<u>1,125,244</u>
LIABILITIES			
Accounts/claims payable	4,093,749	554,907	4,648,656
Employee wages payable	264,619	-	264,619
Accrued interest payable	51,113	-	51,113
Customer deposits	1,584,950	-	1,584,950
Noncurrent liabilities:			
Due within one year	596,919	53,294	650,213
Due in more than one year	2,172,266	148,945	2,321,211
Net pension liability	5,214,081	769,031	5,983,112
Total liabilities	<u>13,977,697</u>	<u>1,526,177</u>	<u>15,503,874</u>
DEFERRED INFLOWS			
Unavailable Revenues	24,051	-	24,051
Related to pensions	916,796	135,015	1,051,811
Total deferred inflows	<u>940,847</u>	<u>135,015</u>	<u>1,075,862</u>
NET POSITION			
Net investment in capital assets	490,634,077	54,508,034	545,142,111
Restricted for:			
Capital projects	17,617,041	-	17,617,041
Unrestricted	60,742,309	5,078,675	65,820,984
Total net position	<u>\$ 568,993,427</u>	<u>\$ 59,586,709</u>	<u>\$ 628,580,136</u>

See accompanying notes to the financial statements

STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2017

Function/Program	Program Revenues			Net (Expense) Revenue and Changes in Net Position			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business - Type Activities	Total
Governmental activities:							
General government	\$ 9,533,450	\$ 34,465	\$ 368	\$ 962,403	\$ (8,536,214)	\$ -	\$ (8,536,214)
Security	14,743,020	736,721	12,224		(13,994,075)	-	(13,994,075)
Physical environment	1,489,512	271,321	102,936		(1,115,255)	-	(1,115,255)
Economic environment	3,853,982	5,673,776			1,819,794	-	1,819,794
Transportation	10,586,802	3,214,967	96,699	720,081	(6,555,055)	-	(6,555,055)
Mental/physical health	16,407				(16,407)	-	(16,407)
Culture and recreation	7,845,884	3,487,345	521,347	4,050,000	212,808	-	212,808
Interest on long-term debt	12,001				(12,001)	-	(12,001)
Total governmental activities	48,081,058	13,418,595	733,574	5,732,484	(28,196,405)	-	(28,196,405)
Business-type activities:							
Surface water management	4,565,776	5,075,454	291,338	2,097,893	-	2,898,909	2,898,909
Total business-type activities	4,565,776	5,075,454	291,338	2,097,893	-	2,898,909	2,898,909
Total government	\$ 52,646,834	\$ 18,494,049	\$ 1,024,912	\$ 7,830,377	(28,196,405)	2,898,909	(25,297,496)
General revenues							
Taxes							
Property					27,898,518		27,898,518
Sales					7,539,939		7,539,939
Real estate excise					7,304,029		7,304,029
Other					2,400,236		2,400,236
Unrestricted investment interest					1,168,494	73,286	1,241,780
Miscellaneous					632,444	31,182	663,626
Transfers					107,435	(107,435)	-
Total general revenues and transfers					47,051,095	(2,967)	47,048,128
Change in net position					18,854,690	2,895,942	21,750,632
Net position - beginning					550,138,737	56,690,767	606,829,504
Net position - ending					\$ 568,993,427	\$ 59,586,709	\$ 628,580,136

See accompanying notes to the financial statements.

BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2017

	Major Funds	
	General	General CIP
ASSETS		
Cash and cash equivalents	\$ 25,372,730	\$ 3,144,054
Cash with outside agencies	217,567	
Investments	9,131,428	1,064,992
Receivables:	-	
Taxes	1,398,547	
Accounts	250,661	
Interest	132,994	15,511
Contracts	447,203	
Due from other governments	5,000	
Restricted assets:		
Deposit cash	1,584,950	
Total assets	<u>\$ 38,541,080</u>	<u>\$ 4,224,557</u>
LIABILITIES AND FUND BALANCES		
Liabilities:		
Accounts/claims payable	\$ 2,837,094	\$
Employee wages payable	264,619	
Due to other governments	45,780	
Payable from restricted assets:		
Customer deposits	1,584,950	
Total liabilities	<u>4,732,443</u>	<u>-</u>
Deferred inflows:		
Unavailable revenues	830,838	15,511
Total deferred inflows	<u>830,838</u>	<u>15,511</u>
Fund balances:		
Nonspendable	447,203	-
Restricted	83,750	153,372
Committed	-	-
Assigned	4,660,783	4,055,674
Unassigned	27,786,063	-
Total fund balances	<u>32,977,799</u>	<u>4,209,046</u>
Total liabilities and fund balances	<u>\$ 38,541,080</u>	<u>\$ 4,224,557</u>

See accompanying notes to the financial statements.

Major Funds		Non-Major Fund	Total Governmental Funds
Parks CIP	Transportation CIP	G.O. Debt Service Fund	
\$ 12,710,271	\$ 20,581,347	\$ -	\$ 61,808,402
		-	217,567
4,305,376	6,971,561	-	21,473,357
354,361	354,360	-	2,107,268
52,453	69,601	-	372,715
62,705	101,537	-	312,747
			447,203
40,000	68,000		113,000
			1,584,950
<u>\$ 17,525,166</u>	<u>\$ 28,146,406</u>	<u>\$ -</u>	<u>\$ 88,437,209</u>
\$ 87,355	\$ 1,088,318	\$ -	\$ 4,012,767
			264,619
			45,780
			1,584,950
<u>87,355</u>	<u>1,088,318</u>	<u>-</u>	<u>5,908,116</u>
69,444	111,480		1,027,273
<u>69,444</u>	<u>111,480</u>	<u>-</u>	<u>1,027,273</u>
-	-		447,203
5,557,478	11,822,441		17,617,041
-	-		-
11,810,889	15,124,167		35,651,513
			27,786,063
<u>17,368,367</u>	<u>26,946,608</u>	<u>-</u>	<u>81,501,820</u>
<u>\$ 17,525,166</u>	<u>\$ 28,146,406</u>	<u>\$ -</u>	<u>\$ 88,437,209</u>

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES
TO NET POSITION OF GOVERNMENTAL ACTIVITIES
For the Year Ended December 31, 2017

Total governmental fund balances \$ 81,501,820

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources
and thus not reported in the funds. 490,962,487

These assets consist of:

Land	301,395,049
Construction in progress	15,803,268
Art	91,041
Buildings	53,799,068
Improvements other than buildings	40,996,196
Machinery and equipment	3,388,667
Depreciable infrastructure	191,184,976
Software	421,139
Less: accumulated depreciation	(116,116,917)

Some liabilities, including bonds, loans and compensated absences payable, are not due
and payable in the current period and therefore are not reported in the funds. (7,720,981)

These long-term liabilities consist of:

Bonds payable	(2,133,333)
Pension liabilities	(4,962,259)
Accrued debt interest payable	(5,333)
Compensated absences	(620,056)

Unavailable revenues are not available to pay for current period expenditures. 1,003,222

Net Deferred Outflows/Inflows - Pension not available in current period. 62,502

Due from Business type activities - charges by internal service funds were less than actual expenses. 130,572

Internal service funds are used by management to charge the costs of certain activities, such as
insurance and information services, to individual funds. The assets and liabilities of these internal
service funds are included in governmental activities in the statement of net position. 3,053,805

Net position of governmental activities \$ 568,993,427

See accompanying notes to the financial statements.

STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended December 31, 2017

	Major Funds	
	General Fund	General CIP Fund
REVENUES		
Taxes	\$ 35,296,144	\$
Licenses and Permits	3,301,229	
Intergovernmental	2,658,136	
Charges for Services	3,635,320	
Fines and Forfeitures	243,266	
Investment Income	466,583	38,647
Contributions	124,494	
Miscellaneous	660,238	
Total Revenues	<u>46,385,410</u>	<u>38,647</u>
EXPENDITURES		
Current		
General Government	8,813,452	
Security of Persons and Property	14,490,040	
Physical Environment	1,496,388	
Transportation	7,813,667	
Economic Environment	3,881,847	
Mental/Physical Health	16,407	
Culture and Recreation	4,042,948	
Capital Outlay	439,360	
Debt Service		
Principal		
Interest and Debt Issue Costs		
Total Expenditures	<u>40,994,109</u>	<u>-</u>
Excess (deficiency) of revenues over (under) expenditures	5,391,301	38,647
OTHER FINANCING SOURCES (USES)		
Insurance Recovery	5,765	
Transfers In	25,000	350,000
Transfers Out	(1,550,000)	(25,000)
Total other financing sources (uses)	<u>(1,519,235)</u>	<u>325,000</u>
Net change in fund balances	3,872,066	363,647
Fund balances - beginning	<u>29,105,733</u>	<u>3,845,399</u>
Fund balances - ending	<u>\$ 32,977,799</u>	<u>\$ 4,209,046</u>

See accompanying notes to the financial statements.

Major Funds		Non-Major Fund	Total Governmental Funds
Parks CIP Fund	Transportation CIP Fund	G.O. Debt Service Fund	
\$ 3,816,360	\$ 3,652,014	\$ -	\$ 42,764,518
490,000		-	3,301,229
3,014,629	3,180,889	-	3,148,136
		-	9,830,838
140,699	293,742	-	243,266
		-	939,671
		-	124,494
	18,141	-	678,379
<u>7,461,688</u>	<u>7,144,786</u>	<u>-</u>	<u>61,030,531</u>
		-	8,813,452
		-	14,490,040
		-	1,496,388
		-	7,813,667
		-	3,881,847
		-	16,407
		-	4,042,948
2,264,267	10,817,129	-	13,520,756
		533,333	533,333
		13,334	13,334
<u>2,264,267</u>	<u>10,817,129</u>	<u>546,667</u>	<u>54,622,172</u>
5,197,421	(3,672,343)	(546,667)	6,408,359
		-	5,765
	1,200,000	546,667	2,121,667
	(546,667)	-	(2,121,667)
<u>-</u>	<u>653,333</u>	<u>546,667</u>	<u>5,765</u>
5,197,421	(3,019,010)	-	6,414,124
12,170,946	29,965,618	-	75,087,696
<u>\$ 17,368,367</u>	<u>\$ 26,946,608</u>	<u>\$ -</u>	<u>\$ 81,501,820</u>

RECONCILIATION OF THE STATEMENT OF REVENUES
EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2017

Net change in fund balances - total governmental funds		\$ 6,414,124
<p>Amounts reported for governmental funds in the statement of activities are different because:</p>		
<p>Governmental funds report capital outlays as expenditures. However in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the difference between capital outlays and depreciation in the current period.</p>		
		5,919,017
<p>This amount is comprised of:</p>		
Capital outlays	13,520,756	
Current year depreciation	(7,601,739)	
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.</p>		
		5,766,647
<p>This amount is comprised of:</p>		
Unavailable tax revenues	(21,412)	
Unavailable grants and contracts revenue	(85,162)	
Developer and private contributions	5,664,343	
Interest Income	208,878	
<p>Repayment of the principal of long-term debt consumes the current financial resources of governmental funds but has no effect on net position.</p>		
		533,333
<p>This amount is comprised of:</p>		
Long-term debt repayments	533,333	
<p>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 governmental funds.</p>		
		215,288
<p>This amount is comprised of:</p>		
Accrued interest expense	1,333	
Pension Expense	207,512	
Accrued compensated absences expense	6,443	
<p>Internal service funds are used by management to charge the costs of certain activities, such as insurance, information services, and fleet maintenance, to individual funds. The net revenue (expense) of certain internal service funds is reported with governmental activities.</p>		
		6,281
Change in net position of governmental activities.		\$ 18,854,690

See accompanying notes to the financial statements.

**CITY OF SAMMAMISH
NOTES TO THE
FINANCIAL STATEMENTS
FOR YEAR ENDED DECEMBER 31, 2017**

**NOTE 1:
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City of Sammamish was incorporated on August 31, 1999 and operates under the laws of the State of Washington applicable to a Council/Manager form of government. The voters elect at-large a seven member City Council to four year terms. The Council in turn elects a mayor and a deputy mayor from its members.

The City provides what are considered general government services including public safety, arterials and streets, parks and recreation, planning and zoning, permits and inspections, general administrative, and surface water management services. The City contracts for police and fire services.

The accounting and reporting policies of the City of Sammamish, which conform to generally accepted accounting principles for local governments, are regulated by the Washington State Auditor's Office.

Reporting Entity

The City's Comprehensive Annual Financial Report (CAFR) includes all funds, agencies and boards controlled by or dependent on the City. Control by or dependence on the City was determined on the basis of financial accountability, budget adoption, taxing authority, outstanding debt service secured by revenues or general obligations of the City, obligations of the City to finance any deficits that may occur, or receipt of significant subsidies from the City.

Basic Financial Statements

The City's basic financial statements consist of government-wide statements, including a statement of net position and a statement of activities, and fund financial statements, which provide a more detailed level of financial information.

The government-wide financial statements report information on all of the activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. 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.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers 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. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate 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.

Measurement Focus and Basis of Accounting

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

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 sixty days after the end of the fiscal period. 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, are recorded only when payment is due.

Under the modified accrual basis of accounting, property taxes, sales taxes, 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 period.

Financial Statement Presentation

The City reports the following major governmental funds:

The **General Fund** is the general operating fund of the City. It accounts for all financial resources and transactions except those required to be accounted for in another fund.

The **General Government, Parks and Transportation Capital Improvement Program (CIP) Funds** account for the financial resources that are restricted, committed, or assigned to expenditure for the acquisition or construction of general government, park, and transportation capital facilities other than those financed by proprietary funds.

The City reports the following major proprietary fund:

The **Surface Water Fund** accounts for utility operations and capital projects. The fund is self-supported by revenues that include user fees, system development charges, intergovernmental grants and loans, and developer contributions. The utility is financed and operated like a private business enterprise, which requires periodic determination of revenues earned, expenses incurred, and net income for capital maintenance, public policy, management control, and accountability.

Additionally the City reports the following fund type:

Internal service funds account for equipment rental and replacement, information technology and insurance services provided to other departments of the City on a cost reimbursement basis.

As a general rule, the effect of interfund activity is eliminated from the government-wide financial statements. Direct expenses of the functional categories are included in the government-wide statement of activities while indirect expense allocations are eliminated. Indirect expenses are primarily charged to the various functions through the use of internal service funds for equipment rental and maintenance, information technology and risk management. Elimination of payments to internal service funds are treated as expense reductions. No other indirect expenses are allocated to the various governmental functions.

Amounts reported as program revenues include 1) charges to customers for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

The proprietary fund statements distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, taxes, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Budgets and Budgetary Accounting

The City of Sammamish budgets its funds in accordance with the Revised Code of Washington (RCW) 35A.34. In compliance with the code, all funds have budgets. Budgets established for proprietary funds are "management budgets" and as such are not required to be reported in the financial statements.

The budget is proposed by the City Manager and adopted by the City Council with legal budgetary control at the fund level, i.e., the total of expenditures, other financing uses, and the ending fund balance may not exceed the total of beginning balances and budgeted receipts at the fund level. The City Manager may authorize transfers within funds; however, the

City Council must approve by ordinance any additional appropriations, which increase the total for the fund. Any unexpended appropriation balances lapse at the end of the biennium.

In addition to authorizing the budget the City Council biennially approves the Capital Improvement Program. This is a six-year plan for capital project expenditures and anticipated revenue sources. Expenditures and revenues for these projects are budgeted in the Capital Improvements Program Funds.

The City prepares its budgets on the modified accrual basis, which conforms to generally accepted accounting principles. The CAFR includes budgetary comparisons for those governmental funds with legally adopted budgets. Budget amounts include the adopted budget appropriations and any revisions made during the biennium.

State law establishes the budget process and the time limits under which a budget must be developed. The City adopts its biennial budget in December of the year preceding the first year of the biennial budget. Step one involves the identification by the City Council of the mission and objectives for the following biennium. The second step involves forecasting revenue and the establishment of a baseline budget to carry the existing programs into the next biennium. The third step involves the development by each department director of their departmental budget requests. The City Manager develops a preliminary budget that is presented to the Council for review and public hearings. The Council approves an ordinance to adopt the budget. Supplemental appropriations that modify total fund expenditures require an ordinance amending the budget.

Assets, Liabilities and Equities

Cash and Investments

It is the City's policy to invest all temporary cash surpluses. These investments are reported on the Statement of Net Position and the governmental funds balance sheets as cash and cash equivalents or investments. Included in cash and cash equivalents are currency on hand, demand deposits with banks or other financial institutions, and investments with the Local Government Investment Pool. Interest is allocated to each fund on the basis of investments owned.

The City, by State law, is authorized to purchase Certificates of Deposit with financial institutions qualified by the Washington Public Deposit Protection Commission; U.S. Treasury and Agency Securities; bankers' acceptances and repurchase agreements, and to invest in the Washington State Treasurer's Local Government Investment Pool (2a7- like). In accordance with GASB 31, investments in external 2a7-like pools, money market investments, and participating interest-earning investment contracts with remaining maturities of one year or less at the time of purchase are stated at amortized cost. All other investments are stated at fair value.

Receivables

The City of Sammamish recognizes receivables in its various funds based on the accounting basis required for the fund. These receivables are as follows:

Property Taxes

Uncollected property taxes levied for current and prior years are reported as receivable at year-end. The City's property tax collection records show that approximately 98% of the property taxes due are collected during the year of levy and delinquent taxes are collected in the next few years. When property taxes become three years delinquent, the County is required by State statute to foreclose on the property. Historically, all taxes have been collected; therefore no allowance for uncollectable taxes is recorded.

Sales Taxes

Sales taxes collected for November and December but not remitted by the state to the City until January and February of the following year are reported as receivables at year-end. There is no allowance for uncollectable sales taxes because all sales taxes are required by law to be collected by businesses at the time of sale and remitted to the state.

Accrued Interest Receivable

Accrued interest receivable consists of interest earned on investments at the end of the year and interest on investments purchased between interest dates.

Accounts Receivable

Accounts receivable consist of amounts owed by private individuals or organizations for goods and services provided.

Contracts Receivable

The contract receivable is the result of an Asset Transfer Agreement between King County Fire Protection District No. 10 and the city, entered into when the city withdrew from District 10 and joined Eastside Fire and Rescue. The amount receivable is being collected over a twenty year period beginning in 2003. See Note 6.

Grants and Other Intergovernmental Revenues

Grants and entitlements from the Federal and State governments are recorded as intergovernmental revenues and receivables when earned and considered to be available. State shared revenues are recorded when received.

Inventories and Prepaid Items

Inventories in governmental funds consist of expendable supplies held for consumption. The cost is recorded as an expenditure at the time of purchase. Prepaid items consist of annual maintenance contracts that span years and are recorded as expenditures at the time of purchase. Year-end balances of inventory and prepaid items are insignificant and accordingly no reservation of fund balance is reported in governmental funds for these items.

Proprietary funds of the city have no inventories. Payments to vendors for expenses related to future periods are recorded as prepaid expenses in the proprietary funds.

Deferred Outflows of Resources

Deferred outflow of resources is the consumption of net position that is applicable to a future reporting period. A deferred outflow of resources involved no consumption of resources that results in either a net decrease in assets or a net increase in liabilities. It also represents access to present service capability that is under the government's controls.

Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported in the business-type activities column of the government-wide statement of net position and in both the enterprise fund and internal service fund columns of the statement of net position, proprietary funds. Capital assets include land, buildings, machinery, equipment, software, other improvements, vehicles, artwork and infrastructure. Capital assets, other than infrastructure, are defined by the City as assets with an original cost of \$5,000 or more each and an estimated life of more than one year. The City reports infrastructure on a network basis. Accordingly, the amounts spent for construction or acquisition of infrastructure assets are capitalized and reported in the government-wide financial statements regardless of their amount. Where historical cost is not known, assets are recorded at estimated historical cost. Donated assets are valued at acquisition value at the time of acquisition.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the assets' lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Land and works of art are not depreciated. Property, plant, equipment, and infrastructure of the City are depreciated using the straight line method over the following estimated useful lives:

<u>Asset</u>	<u>Years</u>
Buildings/Building Improvements	27.5
Other Improvements	15
Vehicles	10
Machinery & Equipment	3 – 20
Surface Water Improvements	40
Infrastructure	50

Compensated Absences

It is the City's policy to allow employees to accumulate earned but unused vacation, up to 80 hours of compensatory time in lieu of overtime, and up to 720 hours of sick leave benefits. A maximum of 240 hours of accumulated vacation may be carried over at year end. All outstanding vacation leave is payable upon resignation, retirement, or death, to all employees having completed six months of service. Unused compensatory time and 25% of unused sick leave is payable at termination of employment or death. Outstanding sick leave at year-end is accrued at 25% of the balance available. All vacation and compensatory time is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations or retirements.

Long-Term Debt

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using a straight line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as expenses in the year in which they are spent.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of the debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

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.

Deferred Inflows of Resources

Deferred inflow of resources is the acquisition of net position that is applicable to a future reporting period. A deferred inflow of resources involved no acquisition of resources resulting in either a net increase in assets or a net decrease in liabilities. It represents a present obligation to sacrifice resources that the government has little or no discretion to avoid.

Net Position and Fund Balance

In governmental fund types, fund equity is called "fund balance". Fund Balance is reported in the following classifications which reflect the extent to which the City is bound to honor constraints on the purposes for which the amounts can be spent: nonspendable, restricted, committed, assigned, and unassigned.

The City's policy is to spend restricted amounts first when an expenditure is incurred for purposes for which both restricted and unrestricted fund balances are available. When an expenditure is incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used, the assumed order of spending is first committed, assigned, and then unassigned.

Note 12 provides a disaggregation of governmental fund balances between nonspendable, restricted, committed, and unassigned.

In proprietary funds, fund equity is called "net position". Net position is comprised of three components: net investment in capital assets, restricted, and unrestricted.

**NOTE 2:
STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

Fund Deficits and Overexpenditures

During 2017, no City funds exceeded total authorized appropriations at the fund level and there were no material violations of finance-related legal or contractual provisions.

**NOTE 3:
DEPOSITS AND INVESTMENTS**

As of December 31, 2017, the City's cash, cash equivalents, and investments were as follows:

Cash and cash equivalents	\$ 2,624,717
Cash held by outside agencies	217,567
Non-pooled investments, measured at fair value	23,438,729
Pooled investments, measured at amortized cost	<u>66,570,781</u>
Total cash, cash equivalents, and investments	<u>\$92,851,794</u>

Custodial Credit Risk

For deposits, custodial credit risk is the risk that, in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a formal policy for deposit custodial credit risk beyond the requirements of State statute. The City's deposits are entirely covered 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).

For investments, custodial credit risk is the risk that, in the event of the failure of the counterparty to a transaction, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

At December 31, 2017, the City's individual investments in U.S. Treasuries, U.S. government-sponsored securities, and federal agencies were held in the City's name either by the City's safekeeping agency.

Investments

Investments Measured at Fair Value

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

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

The estimated fair values of the City's U.S. Treasury obligations and U.S. government-sponsored securities (excluding U.S. Agency securities) are based on quoted market prices provided by recognized broker dealers (Level 1 inputs). The estimated fair value of its U.S. Agency securities is based on a matrix pricing model that maximizes the use of observable inputs for similar securities as provided by recognized broker dealers (Level 2 inputs). The estimated fair value of the City's Local Government Investment Pool investment is based on the City's proportionate share of the value of the pooled investments (Level 3 inputs).

At December 31, 2017, the City had the following investments measured at fair value:

	12/31/17	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
U.S. Treasury securities	\$ 2,022,742	\$ 2,022,742	\$ -	\$ -
U.S. government agency securities	13,562,372	-	13,562,372	-
U.S. government-sponsored securities	2,967,609	2,967,609	-	-
Municipal bonds	4,886,006	-	66,570,781	-
Total investments by fair value	<u>\$ 23,438,729</u>	<u>\$ 4,990,351</u>	<u>\$ 80,133,153</u>	<u>\$ -</u>

Investments Measured at Amortized Cost

As of December 31, 2017, the City reported \$61,561,895 of funds held with the Washington State Treasurer's Local Government Investment Pool (LGIP).

The City participates in the LGIP, is comparable to a 2a7-like pool, as defined by GASB 31. The LGIP manages a portfolio of securities that meet the maturity, quality, diversification, liquidity, and market value calculation requirements set forth by the Governmental Standards Accounting Board (GASB) for external investment pools that elect to measure, for financial reporting purposes, investments at amortized cost. These funds are limited to high quality obligations, with regulated maximum and average maturities to minimize both market and credit risk. Investments are reported on a trade date basis in accordance with generally accepted accounting principles (GAAP).

The LGIP transacts with participants at a stable net asset value of per share of \$1.00, the same method used for reporting. Participants may contribute or withdraw funds on a daily basis. Participants must inform the Office of the State Treasurer (OST) of any transaction amounts exceeding one million dollars no later than 9 a.m. on the same day of the transaction. Transactions for one million dollars or less can be requested at any time prior to 10 a.m. at the sole discretion of the OST. All pool participants are required to file with the State Treasurer documentation containing the names and titles of the officials authorized to transact with the pool. The LGIP does not impose liquidity fees or redemption gates on participant withdrawals.

At December 31, 2017, the City had the following investment types and maturities:

Investment Type	Reported Value	Less than 1	1 to 3
U.S. Treasury securities	\$ 2,022,742	\$ 2,022,742	\$ -
U.S. government agency securities	13,562,372	1,457,873	12,104,499
U.S. government-sponsored securities	2,967,609	2,967,609	-
Municipal bonds	4,886,006	3,476,974	1,409,032
Local Government Investment Pool	66,570,781	66,570,781	-
Total	<u>\$90,009,510</u>	<u>\$76,495,979</u>	<u>\$13,513,531</u>

Interest Rate Risk. As a means of minimizing risk of loss from interest rate fluctuations the City's informal policy is to generally target weighted average maturity of its investment portfolio to not exceed 24 months.

At December 31, 2017, the credit rating for each investment type was as follows:

Investment Type	Total	Ratings at 12/31/2017			
		Aaa	Aa2	Aa3	Not Rated
U.S. Treasury securities	\$ 2,022,742	\$ 2,022,742	\$ -	\$ -	\$ -
U.S. government agency securities	13,562,372	13,562,372	-	-	-
U.S. government-sponsored securities	2,967,609	2,967,609	-	-	-
Municipal bonds	4,886,006	3,278,855	689,332	619,173	298,646
Local government investment pool	66,570,781	66,570,781	-	-	-
Total Investments	\$90,009,510	\$ 88,402,359	\$ 689,332	\$ 619,173	\$ 298,646

Credit Risk. Credit risk is the risk that an issuer or other counterparty will not fulfill its obligations. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The City, by State law, is limited to investments in obligations of the U.S. government or its agencies, obligations of government-sponsored corporations, banker's acceptances, interest bearing bank accounts, commercial papers, certificates of deposit, repurchase agreements, and in the LGIP. The LGIP is limited to obligations of the U.S. government, government sponsored enterprises, or insured demand deposits and certificates of deposit. The City has no security lending arrangements or reverse repurchase agreements.

Investments in any one investment type that represent 5% or more of total investments at December 31, 2017, were as follows:

Municipal bonds	5.43%
U.S. government agency securities	15.07%
Local government investment pool	73.96%

Concentration of Credit Risk. Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. By formal City policy, investments in any one institution, other than the LGIP, are limited to 25% of the institution's net worth as established by the WPDPC, as well as being limited to a maximum of 40% in any one issuer.

NOTE 4: 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 on a daily basis.

Property Tax Calendar

January 1	Taxes are levied and become an enforceable lien against properties.
February 14	Tax bills are mailed.
April 30	First of two equal installment payments is due.
May 31	Assessed value of property established for next year's levy at 100 percent of market value.
October 31	Second installment is due.

During the year, property tax revenues are recognized when cash is received. At year-end, uncollected property taxes are recognized as receivables and revenue. Amounts collected more than 60 days after year-end are reported as unavailable revenues in governmental funds. Under Washington State law the City may levy property taxes for 2017 up to \$2.80 per \$1,000 of assessed valuation.

The City's levy rate was also subject to the following:

Washington State law in RCW 84.55.010 limits the growth of regular property taxes to one percent per year, after adjustments for new construction and annexations, unless an increase greater than this limit is approved by the voters. If the assessed valuation increases by more than one percent, or decreases, due to revaluation, the levy rate will be adjusted to levy the amount of property taxes approved by the City Council.

The Washington State Constitution limits the total regular property taxes to one percent of assessed valuation or \$10 per \$1,000 of value. If the taxes of all districts exceed this amount, each is proportionately reduced until the total is at or below the one percent limit.

Accordingly, for 2017, the City levied \$1.97 per \$1,000 of assessed value for general governmental services, and had no voter approved excess levy.

**NOTE 5:
CONTRACT RECEIVABLE**

King County Fire Protection District 10: In 2001 the City entered into an Asset Transfer Agreement with King County Fire Protection District 10 when the City withdrew from District 10 and joined Eastside Fire and Rescue. The transfer agreement requires District 10 to pay \$1,788,803 to Eastside Fire and Rescue on behalf of the City of Sammamish over a twenty year period, with no interest, beginning in 2003, in lieu of paying this entire amount to the City upon the City's withdrawal from District 10.

	Contract Amount	Collected to Date	Balance as of 12/31/2017
District 10	\$1,788,803	\$1,341,600	\$ 447,203
Annual contract payments receivable to maturity:		Year	Principal
		2018	\$ 89,440
		2019	89,440
		2020	89,440
		2021	89,440
		2022	89,440
		Total	\$ 447,203

**NOTE 6:
CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2017 was as follows (in thousands):

Primary Government

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$296,269	\$ 5,126	\$ -	\$ 301,395
Construction in Progress	6,311	12,425	(2,933)	15,803
Art	91	-	-	91
Total capital assets, not being depreciated	302,672	17,550	(2,933)	317,289

Capital assets, being depreciated or amortized:				
Buildings & Building Improvements	53,799	-	-	53,799
Improvements other than Buildings	37,771	3,225	-	40,996
Machinery & Equipment	7,469	1,052	(1,195)	7,326
Infrastructure	190,230	955	-	191,185
Software	595	44	-	639
Total capital assets, being depreciated or amortized	<u>289,865</u>	<u>5,276</u>	<u>(1,195)</u>	<u>293,945</u>
Less accumulated depreciation and amortization for:				
Buildings & Building Improvements	8,454	1,934	-	10,388
Improvements other than Buildings	20,956	2,700	-	23,656
Machinery & Equipment	5,421	519	(1,187)	4,753
Infrastructure	76,346	2,755	-	79,102
Software	520	48	-	568
Total accumulated depreciation and amortization	<u>111,697</u>	<u>7,956</u>	<u>(1,187)</u>	<u>118,467</u>
Total capital assets, being depreciated or amortized, net	<u>178,167</u>	<u>(2,681)</u>	<u>(8)</u>	<u>175,478</u>
Governmental Activities Capital Assets, net	<u>\$480,839</u>	<u>\$14,870</u>	<u>\$ (2,941)</u>	<u>\$ 492,767</u>

Business-Type Activities:

Capital Assets, not being depreciated:				
Land	\$ 13,391	\$ 191	\$ -	\$ 13,582
Construction in Progress	2,636	2,917	-	5,553
Total capital assets, not being depreciated	<u>16,027</u>	<u>3,108</u>	<u>-</u>	<u>19,135</u>
Capital Assets, being depreciated or amortized:				
Buildings & Building Improvements	1,744	-	-	1,744
Improvements other than Buildings	45,980	1,127	-	47,107
Machinery & Equipment	39	119	-	158
Software	14	-	-	14
Total capital assets, being depreciated or amortized	<u>47,777</u>	<u>1,246</u>	<u>-</u>	<u>49,023</u>
Less Accumulated Depreciation or amortization for:				
Buildings & Building Improvements	381	63	-	444
Improvements other than Buildings	11,950	1,201	-	13,150
Machinery & Equipment	20	22	-	42
Software	14	-	-	14
Total accumulated depreciation and amortization	<u>12,364</u>	<u>1,287</u>	<u>-</u>	<u>13,651</u>
Total capital assets, being depreciated or amortized, net	<u>35,413</u>	<u>(41)</u>	<u>-</u>	<u>35,373</u>
Business-Type Activities Capital Assets, net	<u>\$ 51,441</u>	<u>\$ 3,067</u>	<u>\$ -</u>	<u>\$ 54,508</u>

Depreciation/amortization expense was charged to functions/programs of the primary government as follows:

General Government	\$ 631
Security	268
Physical Environment	-
Transportation, including depreciation of General Government Infrastructure assets	2,837
Culture and Recreation	3,865
Capital assets held by the City's internal service funds are charged to the various functions based on their usage of those assets	<u>355</u>
Total depreciation and amortization expense - Governmental Activities	<u>\$ 7,956</u>
Business-Type Activities:	
Surface Water Management	<u>\$ 1,287</u>
Total depreciation and amortization expense - Business-Type Activities	<u>\$ 1,287</u>

**NOTE 7:
OPERATING LEASES**

Youth Eastside Services

Effective March 1, 2010, the City entered into a ten-year lease with Youth Eastside Services (YES), a non-profit corporation providing services to citizens of Sammamish. YES leases the main floor of a two-story building (Sween House), an attached garage, and adjacent parking area. The downstairs of the building is used by the city. The building and adjacent parking are reported on the city's Statement of Net Position as part of depreciable assets.

In consideration of the value of YES's contribution to the human service needs of residents of the city and the maintenance and operation of the premises, YES pays no rent during the term of the lease agreement. The City is responsible for maintaining the structural and exterior components of the building; mechanical, electrical and plumbing systems; and the parking area, sidewalks, paths and grounds around the premises. YES is responsible for paying utilities; taxes; and for routine interior maintenance and repair.

The Boys and Girls Club of King County

Effective November 2, 2010, the City entered into a ten-year lease with The Boys and Girls Club of King County (the Club), a non-profit corporation providing services to citizens of Sammamish. The Club leases a former library and the adjacent parking area that was purchased by the city from the King County Library System in 2010. The building and adjacent parking are reported on the city's Statement of Net Position as part of depreciable assets. The Club remodeled and will operate the premises as a learning and recreation center for teens.

In consideration of the value of the Club's contribution to the recreation needs of the residents of the City, the tenant improvements to the premises, and the maintenance and operation of the premises, the Club shall pay to the city an annual rent of \$1.00. The City is responsible for maintaining the structural and exterior components of the building such as the roof and exterior cladding; major repairs to the mechanical, electrical and plumbing systems; and major repairs to the parking area, sidewalks, paths and grounds around the premises. The Club is responsible for routine maintenance and repair of the interior and exterior premises including landscape and janitorial services; utilities; and taxes.

King County Sheriff's Office

On April 26, 2011, the City entered into a lease with the King County Sheriff's Office (KCSO) for office space located in City Hall. The lease term is ten-years, with an effective date commencing upon substantial completion of the KCSO's tenant improvements, subsequently determined to be March 1, 2012.

Current annual lease payments to the City are \$107,880, and are adjusted annually based on the cumulative increase in the Consumer Price Index for All Urban Customers- All Items- Seattle- Tacoma- Bremerton published by the United States Department of Labor, Bureau of Statistics for the preceding twelve consecutive month period. The KCSO is also responsible for their proportionate share of electrical, janitorial, and other shared overhead costs. The city is responsible for maintaining the structural and exterior components of the building; mechanical, electrical and plumbing systems; and the parking area, sidewalks, paths and grounds around the premises.

Sammamish Heritage Society

On December 1, 2011, the City entered into a 15-year lease with the Sammamish Heritage Society (the Society), a Washington nonprofit corporation. The Society will move a historic structure (the Reard-Freed House) from its current location, to private property, for which the City obtained an easement. The Society will also undertake a complete renovation of the House. Both the move and renovation are at the sole cost of the Society.

In consideration of the value of the Society's contribution to the recreation needs of the City, the tenant improvements to the premises, and the maintenance and operation of the premises, the Society shall pay to the city an annual rent of \$1.00. The Society is responsible for maintaining the structural and exterior components of the building such as the roof and exterior cladding; major repairs to the mechanical, electrical and plumbing systems; and major repairs to the parking area, sidewalks, paths and grounds around the premises. The Society is also responsible for routine maintenance and repair of the interior and exterior premises including landscape and janitorial services; utilities; and taxes.

Central Washington University

On March 21, 2017, the City entered into a three-year lease with Central Washington University (CWU) for use of office space at a City owned property know as Mars Hill, an approximately 30,000 square foot former church purchased by the City in 2015. The facility will be used as a higher education center, providing programming and coursework that leads to a certificate, or a baccalaureate or master's degree. After the initial three-year lease term, CWU may exercise the option to extend the term by not more than 15 total years, exercisable in one or more five-year increments. Annual rent is \$60,000.

CWU is responsible for tenant improvements to the premises as well as the security, routine repair and maintenance and daily operation of the premises. The City is responsible for the maintenance of the parking lot and landscaping, as well as custodial services. Major capital replacement and repair, including the roof, structural elements, heating, air-conditioning, fire suppression system, and plumbing/electrical, is also the responsibility of the City.

The lease includes a purchase option, that CWU may exercise at any time during the lease term. The purchase price is set at \$8,000,000 for the first year of the lease, and increases 2% annually for the remainder of the initial lease term. After the initial lease term, the increase is set at 2% or the cumulative increase in the Consumer Price Index for All Urban Areas – All Items – Seattle-Tacoma-Bremerton, for the preceding 12-month period.

Schedule of Leased Property

Asset	Cost	Accumulated Depreciation	Carrying Value
Sween House	\$ 268,925	\$ 78,232	\$ 190,693
Library	1,682,086	489,336	1,192,750
KCSO Office Space	580,355	105,520	474,835
CWU Office Space	4,449,897	476,775	3,973,122
Total Leased Property	\$ 6,981,263	\$ 1,149,863	\$ 5,831,400

2017 Depreciation Expense \$ 250,975

NOTE 8: PENSION PLANS

The following table represents the aggregate pension amounts for all plans subject to the requirements of GASB 68 for the year 2017:

Aggregate Pension Amounts – All Plans	
Pension Liabilities	5,983,112
Pension Assets	-
Deferred Outflows of Resources	1,125,244
Deferred Inflows of Resources	(1,051,811)
Pension Expense	805,754

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.

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 six percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2017 were as follows: The City's actual contributions to the plan were \$423,632 for the year ended December 31, 2017.

PERS 1	<u>Employer</u>	<u>Employee</u>
January - June 2017		
PERS Plan 1	6.23%	6.00%
PERS Plan 1 UAAL	4.77%	-
Administrative Fee	0.18%	-
Total	<u>11.18%</u>	<u>6.00%</u>
July - December 2017		
PERS Plan 1	7.49%	6.00%
PERS Plan 1 UAAL	5.03%	-
Administrative Fee	0.18%	-
Total	<u>12.70%</u>	<u>6.00%</u>

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

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

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

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

Contributions - The PERS Plan 2/3 employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the

state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2017 were as follows:

PERS 2/3	Employer Plan 2/3	Employee Plan 2
January - June 2017		
PERS Plan 2/3	6.23%	6.12%
PERS Plan 1 UAAL	4.77%	-
Administrative Fee	0.18%	-
Employee PERS Plan 3		varies
Total	<u>11.18%</u>	<u>6.12%</u>
July - December 2017		
PERS Plan 1	7.49%	7.38%
PERS Plan 1 UAAL	5.03%	-
Administrative Fee	0.18%	-
Employee PERS Plan 3		varies
Total	<u>12.70%</u>	<u>7.38%</u>

The City's actual contributions to the plan were \$595,864 for the year ended December 31, 2017.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2017 with a valuation date of June 30, 2016. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) *2007-2012 Experience Study* and the *2015 Economic Experience Study*.

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

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

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

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

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

Discount Rate

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

To determine that rate, an asset sufficiency test included an assumed 7.7% long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. Consistent with the long-term expected rate of return, a 7.5% 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 employers, whose rates include a component for the PERS 1 plan liabilities). Based on these assumptions, the pension plans' fiduciary net position

was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.5% was used to determine the total liability.

Long-Term Expected Rate of Return

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

Estimated Rates of Return by Asset Class

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2017, are summarized in the table below. The inflation component used to create the table is 2.2% and represents 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	20.0%	1.7%
Tangible Assets	5.0%	4.9%
Real Estate	15.0%	5.8%
Global Equity	37.0%	6.3%
Private Equity	23.0%	9.3%
Total	100.0%	

Sensitivity of the Net Pension Liability

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

	1% Decrease 6.50%	Current Discount Rate 7.50%	1% Increase 8.50%
PERS 1	\$ 3,753,395	\$ 3,081,121	\$ 2,498,789
PERS 2/3	7,818,266	2,901,990	(1,126,168)

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

At June 30, 2017, the City reported a total pension liability of \$5,983,112 for its proportionate share of the net pension liabilities as follows:

	Pension Liability
PERS 1	\$ 3,081,122
PERS 2/3	2,901,990

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

	<u>Proportionate Share 12/31/16</u>	<u>Proportionate Share 12/31/17</u>	<u>Change in Proportion</u>
PERS 1	0.061417%	0.064933%	0.003516%
PERS 2/3	0.078799%	0.083522%	0.004723%

Employer contribution transmittals received and processed by 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 DRS in the *Schedules of Employer and Nonemployer Allocations* for all plans the City participates in.

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

Pension Expense

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

	<u>Pension Expense</u>	
PERS 1	\$	369,030
PERS 2/3		436,724

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

PERS 1	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ -
Net difference between projected and actual investment earnings on pension plan investments	-	114,980
Changes of assumptions	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	-	-
Contributions subsequent to the measurement date	<u>227,211</u>	<u>-</u>
TOTAL	<u>\$ 227,211</u>	<u>\$ 114,980</u>
PERS 2/3	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 294,040	\$ 95,441
Net difference between projected and actual investment earnings on pension plan investments	-	773,601
Changes of assumptions	30,825	-
Changes in proportion and differences between contributions and proportionate share of contributions	234,835	67,789
Contributions subsequent to the measurement date	<u>338,333</u>	<u>-</u>
TOTAL	<u>\$ 898,033</u>	<u>\$ 936,831</u>

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:

<u>Year-ended 12/31</u>	<u>PERS 2/3</u>
2018	\$ (267,889)
2019	96,536
2020	(45,824)
2021	(283,551)
2022	53,738
Thereafter	69,859
	<u>\$ (377,131)</u>

There is no long-term amortization of deferred outflows or deferred inflows for the PERS 1 plan.

401(a) Plan

Permanent City employees participate in a 401(a) Plan that is a replacement for the Social Security System. Permanent employees working 1040 or more hours per year are required to participate in the plan. ICMA Retirement Corporation administers the plan.

The 401(a) Plan is a defined contribution plan with participants contributing an amount equal to the current Social Security rate (7.65%) of their salary. Employees contribute 6.2% to the 401(a) Plan and 1.65% to Medicare. The City contributes 6.2% for permanent employees. Employee contributions during 2017 were \$549,005. City contributions were \$547,018. The Medicare portion of social security contributed by employees was \$133,332. There is no vesting period for City contributions.

Plan assets are not the property of the City and are not subject to the claims of the City's general creditors.

Other Employee Benefits

Employees are covered by a long-term disability plan that takes effect after 90 days. Coverage is provided at 67% of the employee's monthly salary. It is capped at a maximum payout of \$8,000 per month.

Life Insurance is provided equal to two times an employee's annual salary.

The City offers its employees a voluntary 457 deferred compensation plan. ICMA Retirement Corporation administers this plan. The monies deposited to this plan are not considered resources available to the City. Employees may contribute up to \$17,500 of wages to this plan per year.

NOTE 9: CONSTRUCTION COMMITMENTS

The City has active construction projects as of December 31, 2017. The projects include widening and construction of existing streets, sidewalks, and bridges, and building improvements.

	<u>Spent-to-Date</u>	<u>Remaining Commitment</u>
Street and Bridge Construction	\$ 4,783,000	\$ 4,581,453
Total	<u>\$ 4,783,000</u>	<u>\$ 4,581,453</u>

**NOTE 10:
INTERFUND TRANSFERS**

Fund	Transfers In
General Fund	25,000
G.O. Debt Service Fund	546,667
General CIP Fund	350,000
Transportation CIP Fund	1,200,000
Surface Water Fund	-
Equipment Rental & Replacement Fund	107,435
Total Transfers	\$ 2,229,102

Interfund transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, to move receipts for debt service from the funds collecting the receipts to a debt service fund as payments become due, and to use unrestricted revenues in the general fund to finance various programs accounted for in the other funds in accordance with budgetary authorizations.

**NOTE 11:
LONG-TERM OBLIGATIONS**

Public Works Trust Fund Loan

2001 GO Public Works Trust Fund Loan: In May of 2001, the City transacted a General Obligation Public Works Trust Fund Loan for transportation infrastructure improvements in the amount of \$10,000,000 at a rate of 0.5%. This loan has a term of 20 years.

	Issue Date	Maturity Date	Interest Rate	Amount Issued	Redemptions to Date	Outstanding 12/31/2017
2001 PWTFL	05/11/01	05/18/21	0.5%	\$ 10,000,000	\$ 7,866,667	\$ 2,133,333
Total Public Works Trust Fund Loans				\$ 10,000,000	\$ 7,866,667	\$ 2,133,333

Annual debt service requirements to maturity for the loans are as follows:

<u>Governmental Activities</u>		
Year	Principal	Interest
2018	\$ 533,333	\$ 8,000
2019	533,333	5,333
2020	533,333	2,667
2021	533,333	1,333
	\$ 2,133,333	\$ 17,333

Surface Water LTGO Revenue Bonds

Prior to incorporation in 1999, the area which is currently the City of Sammamish was part of King County. In 1996 and 1999 King County issued Limited General Obligation (LTGO) bonds payable from revenues generated by King County Surface Water fees to fund capital projects. As part of the City's incorporation process a share of each bond issue, based

on assessed valuation of the City, became an obligation of the City although none of the projects financed by the bonds were built within the City limits. Therefore, this debt is not used in the calculation of Net Investment in Capital Assets on the Statement of Net Position. In 2016, the city annexed property from King County, increasing the city's share of the 1996 bond issue by \$20,477 and the 1999 bond issue by \$33817, and adding a share of King County's 2001 bond issue of \$53,432. The City recognizes this debt obligation on its financial statements (per RCW 36.89.120) as a contract payable based on an interlocal contract with King County.

	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Amount Issued</u>	<u>Redemptions to Date</u>	<u>Outstanding 12/31/2017</u>
1999 LTGO Bond	05/01/99	12/01/19	4.0% - 5.25%	402,155	329,175	72,980
2001 LTGO Bond	11/01/01	12/01/21	3.0% - 5.0%	53,432	9,033	36,364
Total LTGO Bonds				<u>\$ 455,587</u>	<u>\$ 338,207</u>	<u>\$ 109,343</u>

Annual debt service requirements to maturity for the loans are as follows:

Business Type Activities

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2018	\$ 44,004	\$ 5,630
2019	46,273	3,362
2020	9,299	957
2021	9,768	488
	<u>\$ 109,343</u>	<u>\$ 10,437</u>

Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2017, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities:					
PWTFL	2,666,667	-	(533,333)	2,133,333	533,333
Compensated absences	625,165	729,928	(719,241)	635,852	63,585
Pensions	6,345,075	5,214,081	(6,345,075)	5,214,081	-
Total Governmental Activities	<u>\$9,636,907</u>	<u>\$5,944,009</u>	<u>\$(7,597,649)</u>	<u>\$7,983,266</u>	<u>\$ 596,919</u>
Business-Type Activities:					
Surface Water Revenue Bonds	\$ 151,148	\$ -	\$ (41,805)	\$ 109,343	\$ 44,004
Compensated absences	83,253	107,721	(98,078)	92,896	9,290
Pensions	920,775	769,031	(920,775)	769,031	-
Total Business-Type Activities	<u>\$1,155,176</u>	<u>\$ 876,752</u>	<u>\$(1,060,658)</u>	<u>\$ 971,270</u>	<u>\$ 53,294</u>

Internal service funds predominately serve the governmental funds. Accordingly, long term liabilities for them are included as part of the above totals for governmental activities. At year-end \$15,796 of internal service funds' compensated absences are included in the above amounts. Compensated absences for governmental activities are liquidated from the general fund.

**NOTE 12:
GOVERNMENTAL FUND BALANCES**

In the governmental fund financial statements, fund balances are classified based primarily on the extent to which the City is bound to observe certain constraints imposed upon the resources in the fund as follows:

- Nonspendable represents the portion of fund balance that is not in spendable form such as inventories, prepaid items, and long-term receivables.
- Restricted signifies those portions of fund balance where constraints placed on the resources are either externally imposed, or imposed by law through enabling legislation.
- Committed fund balance represents amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the City Council. Commitments are established, modified, or rescinded only by adoption of an ordinance.
- Assigned fund balance is identified by the City’s intent to use the funds for a specific purpose. Fund balance amounts may be assigned by the City Manager or Finance Director based on Council direction.
- Unassigned fund balance is the residual amount of the General Fund not reported in any of the above four categories. These amounts are technically available for any purpose. Additionally, negative fund balance in any other governmental fund is unassigned. The city only has positive unassigned fund balance in the general fund.

A summary of governmental fund balances at December 31, 2017 are as follows (in thousands):

	Major Funds				Non-Major Fund	Total
	General	General CIP	Parks CIP	Transportation CIP	G.O. Debt Service Fund	
Nonspendable:						
Long-term receivable	\$ 447	\$ -	\$ -	\$ -	\$ -	\$ 447
Restricted for:						
Law enforcement	-	153	-	-	-	153
Transportation	84	-	-	11,822	-	11,906
Parks and recreation	-	-	5,557	-	-	5,557
Committed:	-	-	-	-	-	-
Assigned for:						
General Government capital funding	-	4,056	-	-	-	4,056
Transportation capital funding	4,661	-	-	15,124	-	19,785
Parks and recreation capital funding	-	-	11,811	-	-	11,811
Unassigned:	<u>27,786</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>27,786</u>
Total Fund Balances	<u>\$ 32,978</u>	<u>\$ 4,209</u>	<u>\$ 17,368</u>	<u>\$ 26,947</u>	<u>\$ -</u>	<u>\$ 81,502</u>

Strategic Reserve Allocation

The City has adopted a strategic reserve policy that is categorized as unassigned under GASB No. 54. The amount of the reserve is set at ten percent of the annual budgeted revenues of the General Fund, which is \$4,225,876 for 2018 and \$4,146,319 for 2017. The strategic reserve may be spent to provide sufficient working capital for City programs, to maintain City services at an appropriate level, to fund unanticipated one-time expenditures, or in the event of an emergency declared by the City Manager.

**NOTE 13:
OTHER POST EMPLOYMENT BENEFITS**

Association of Washington Cities Employee Benefit Trust

Trust Description. The City is a Participating Employer in the Association of Washington Cities Employee Benefit Trust (Trust), a cost-sharing multiple-employer welfare benefit plan administered by the Association of Washington Cities (AWC). The Trust provides medical benefits to certain eligible retired employees of Participating Employers and their eligible family members. Under Article VII of the Trust document, the Trustees have the authority and power to amend the amount and the nature of the medical and other benefits provided by the Trust. The Trust issues a publicly available financial report that includes financial statements and required supplementary information for the Trust. That report, along with a copy of the Trust document, may be obtained by writing to Trust at 1076 Franklin Street SE, Olympia, WA 98501-1346 or by calling 1-800-562-8981.

Funding Policy. The Trust provides that contribution requirements of Participating Employers and of participating employees, retirees and other beneficiaries, if any, are established and may be amended by the Board of Trustees of the Trust. Retirees of the City receiving medical benefits from the Trust contribute monthly as follows: For the AWC HealthFirst 1000 plan - \$734.37 for non-Medicare enrolled retiree coverage and \$740.78 for non-Medicare enrolled spouse coverage, and for the AWC HealthFirst 2500 plan - \$641.21 for non-Medicare enrolled retiree coverage and \$645.87 for non-Medicare enrolled spouse coverage.

Participating Employers are contractually required to contribute at rates assessed each year by the Trust for all active covered employees. The City requires all employees to contribute 10% of their dependent's premium costs. The City's contribution to the Trust for the years ended in December 31st were \$1,320,063 in 2015, \$1,600,628 in 2016, and \$2,150,895 in 2017 and the employee's dependent premium contributions were \$55,144 in 2015, \$63,826 in 2016, and 79,937 in 2017, which equaled the required contributions for the year. The Trust pays benefits for both active employees and retirees from the same pool of assets.

**NOTE 14:
CONTINGENCIES AND LITIGATION**

As of December 31, 2017, there were a number of damage claims and lawsuits pending against the City. However, in our opinion, with which the City Attorney concurs, neither the potential liability from any single claim or lawsuit, nor the aggregate potential liability resulting from all pending claims or lawsuits, would affect materially the financial condition of the City.

**NOTE 15:
RISK MANAGEMENT**

The City of Sammamish is a member of the Washington Cities Insurance Authority (WCIA).

Utilizing Chapter 48.62 RCW (self-insurance) and Chapter 39.34 RCW (Interlocal Cooperation Act), nine cities originally formed WCIA on January 1, 1981. WCIA was created for the purpose of providing a pooling mechanism for jointly purchasing insurance, jointly self-insuring, and/or jointly contracting for risk management services. WCIA has a total of 161 Members.

New members initially contract for a three-year term, and thereafter automatically renew on an annual basis. A one-year withdrawal notice is required before membership can be terminated. Termination does not relieve a former member from its unresolved loss history incurred during membership.

Liability coverage is written on an occurrence basis, without deductibles. Coverage includes general, automobile, police, public officials' errors or omissions, stop gap, and employee benefits liability. Limits are \$4 million per occurrence self-insured layer, and \$21 million per occurrence in the re-insured excess layer. The excess layer is insured by the purchase of reinsurance and insurance and is subject to aggregate limits. Total limits are \$25 million per occurrence subject to aggregate sublimits in the excess layers. The Board of Directors determines the limits and terms of coverage annually.

Insurance coverage for property, automobile physical damage, fidelity, inland marine, and boiler and machinery are purchased on a group basis. Various deductibles apply by type of coverage. Property insurance and auto physical damage are self-funded from the members' deductible to \$750,000, for all perils, other than flood and earthquake, and insured above that to \$300 million per occurrence subject to aggregates and sublimits. Automobile physical damage coverage is self-funded from the members' deductible to \$250,000 and insured above that to \$100 million per occurrence subject to aggregates and sublimits.

In-house services include risk management consultation, loss control field services, claims and litigation administration, and loss analyses. WCIA contracts for the claims investigation consultants for the personnel issues and land use problems, insurance brokerage, and lobbyist services.

WCIA is fully funded by its members, who make annual assessments on a prospectively rated basis, as determined by an outside, independent actuary. The assessment covers loss, loss adjustment, and administrative expenses. As outlined in the interlocal, WCIA retains the right to additionally assess the membership for any funding shortfall.

An investment committee, using investment brokers, produces additional revenue by investment of WCIA's assets in financial instruments which comply with all State guidelines. These revenues directly offset portions of the membership's annual assessment.

A Board of Directors governs WCIA, which is comprised of one designated representative from each member. The Board elects an Executive Committee and appoints a Treasurer to provide general policy direction for the organization. The WCIA Executive Director reports to the Executive Committee and is responsible for conducting the day to day operations. For the past three years, the insurance settlements did not exceed the coverage that the City had obtained.

NOTE 16: JOINT VENTURES

E-Gov Alliance

On March 25, 2002, the City of Bellevue and principal cities adopted a resolution establishing the E-Gov Alliance between the City of Bellevue and the cities of Bothell, Burien, Issaquah, Kenmore, Kirkland, Mercer Island, Sammamish, and Woodinville. Since then additional cities have joined the Alliance as subscribers. The Alliance establishes on-line services through a jointly operated internet portal. Additionally, the Alliance has established a partnership with Microsoft to help define the E-Gov architecture, provide consulting services, offer training, and receive donated software.

The interlocal agreement may be terminated if the principals holding at least sixty percent of the weighted vote of all the principals are in concurrence. Upon termination, all property acquired shall be disposed of as follows: (1) property contributed without charge by any member shall revert to the contributor; (2) all property purchased after the effective date of the interlocal agreement shall be distributed to the principals based upon the principal's proportional ownership interest at the time of the sale of the property. The City's share of the net position is deemed immaterial and thus not reflected in the financial statements.

Financial information may be obtained from Beverly Ni, City of Bellevue, Information Technology Department, P.O. Box 90012, Bellevue, WA 98009-9012.

Eastside Fire and Rescue

In 1999, through an interlocal agreement as provided by RCW 39.34, the consolidation of several agencies created a new Fire and Emergency Medical Services agency called Eastside Fire and Rescue (EF&R). The agencies (principals) joining in this consolidation included King County Washington Fire Protection Districts 10 and 38, and the Cities of Issaquah and North Bend, with the City of Sammamish joining in January 2001. The current Interlocal Agreement is for a seven-year period ending December 31, 2021. Any party may withdraw at the end of any seven-year term by filing with the other parties a notice of withdrawal in January of the seventh year.

At inception the principals provided real property and equipment for use by EF&R. Title and ownership of these capital assets, and their replacements, remains with the principals.

EF&R is a joint venture partnership. The entities retain an equity interest in EF&R based on their support of EF&R operations. As of December 31, 2017 the equity percentage was as follows:

<u>Entity</u>	<u>Share</u>
Fire District 10	28.78%
Fire District 38	7.0%
City of Issaquah	28.05%
City of North Bend	4.57%
City of Sammamish	31.61%

EF&R is governed by a Joint Board of Directors, which meets on the second Tuesday of each month. The Board consists of eight Directors appointed from each of the principal's elected officials in the following ratios:

<u>Entity</u>	<u>Directors</u>
Fire District 10	2
Fire District 38	1
City of Issaquah	2
City of North Bend	1
City of Sammamish	2

The Districts levy regular real property and emergency medical services taxes at the maximum rate allowed by law. The Directors deposit taxes, as agreed upon and approved by the Directors, with the Board of Directors in June and December. The amount of annual contribution for the Cities, and the amount of additional services contribution, if any, is determined by the respective legislative bodies, after recommendation by the Board of Directors. Annually, Cities contribute financially according to an updated funding model established in 2014. The model utilizes calls for service to establish a first due area of response for each fire station and then applies the surrounding assessed value by jurisdiction to derive each jurisdiction's portion of cost for that station. The total of all stations establishes 85% of each partner's share of the total cost of operation, the remaining costs are determined based on calls for service by jurisdiction. The EF&R Board then establishes a monthly billing schedule which the partners are obligated to pay in a timely fashion. The Equipment Replacement funding uses the same contribution percentages against the total need established by the EF&R Board in concert with the operating budget.

The City's contributions for the last five years are as follows:

<u>Year</u>	<u>Contributions</u>
2013	5,959,215
2014	6,308,277
2015	6,082,869
2016	7,254,232
2017	7,562,180

All real and personal property acquired prior to the agreement remains the property of the acquiring member, with exclusive access and control over the property by EF&R. All property acquired pursuant to the Agreement shall be identified by the Board upon acquisition as joint or separate property. Upon termination of the Agreement, all separate property shall be returned to the owner; the net value of all jointly owned property shall be calculated, and each party shall receive or pay, as applicable, the total net amount to the other, in cash or jointly owned property. The city records the capital assets in the Governmental Activities column of its Statement of Net Position.

Upon dissolution, the agreement provides for distribution of net position among the members based on the percentage of the total annual contributions during the period of the Agreement paid by each member. The City's remaining share of net position is deemed immaterial and thus is not reflected in its financial statements.

Audited financial information can be obtained from Scott Faires, Eastside Fire and Rescue, 175 NW Newport Way, Issaquah, WA 98027.

ARCH-Housing Coalition

In November 1992, the City of Bellevue joined the cities of Redmond and Kirkland and King County to establish A Regional Coalition for Housing (ARCH). The agreement was amended in January 1993 and November 1999 to add clarifying language regarding responsibility and dissolution. Since its inception, the Cities of Beau Arts Village, Bothell, Clyde Hill, Hunts Point, Issaquah, Kenmore, Mercer Island, Newcastle, Sammamish, Woodinville, and Yarrow Point have joined ARCH.

The purpose of ARCH is to cooperatively formulate affordable housing goals and policies and to foster efforts to provide affordable housing by combining public funding with private-sector resources. Operating funding is provided by the member cities. ARCH identifies and prioritizes projects which the member cities fund directly through their own grants, Community Development Block Grants, and HUD grants.

ARCH is governed by an Executive Board composed of the chief executive officer from each member. The Executive Board is responsible for review and approval of all budgetary, financial, policy, and contractual matters. The Board is assisted by an administrative staff and a Citizen Advisory Board.

Each member city is responsible for contributing operating revenues as determined from the ARCH annual budget. Contributions from the member cities are based on each member's population. The City's contributions for the last five years were as follows:

<u>Year</u>	<u>Budget</u>	<u>Sammamish's Share</u>	<u>Percentage</u>
2013	543,948	49,167	9.04%
2014	601,989	53,420	8.87%
2015	633,805	60,644	9.57%
2016	652,930	62,474	9.57%
2017	675,806	69,346	10.3%

Members withdrawing from the agreement relinquish all rights to any reserve funds, equipment, or material purchased. Upon dissolution the agreement, as amended, provides for distribution of net position among members based on the percentage of the total annual contributions during the period of the Agreement paid by each member. The City's share of net position is deemed immaterial and thus is not reflected in the financial statements.

Budget monitoring information can be obtained from ARCH, c/o Art Sullivan, 16225 NE 87th Street, Redmond, WA 98052.

**NOTE 17:
ARBITRAGE STATEMENT**

The City of Sammamish had no arbitrage liability at the end of 2017. The Public Works Trust Loan proceeds were spent with in twelve months of receipt.

CITY OF SAMMAMISH

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
GENERAL FUND
For the Mid-Biennium Ended December 31, 2017

	Original Budget 2017-2018	Final Budget 2017-2018	Actual Through 12/31/17	Variance with Final Budget Positive (Negative)
REVENUES AND OTHER FINANCING SOURCES				
Taxes	\$ 68,850,000	\$ 68,900,000	\$ 35,296,144	\$ (33,603,856)
Licenses and permits	5,106,000	5,106,000	3,301,229	(1,804,771)
Intergovernmental	2,201,400	2,236,400	1,170,544	(1,065,856)
Charges for services	5,705,000	5,640,700	3,601,242	(2,039,458)
Fines and forfeitures	558,900	558,900	243,266	(315,634)
Investment income	143,000	143,000	364,356	221,356
Contributions	268,880	268,880	124,494	(144,386)
Miscellaneous	714,700	714,700	523,242	(191,458)
Total revenues	<u>83,547,880</u>	<u>83,568,580</u>	<u>44,624,517</u>	<u>(38,944,063)</u>
EXPENDITURES				
Current				
General government	21,064,358	21,876,808	8,813,452	13,063,356
Security of persons and property	29,723,751	30,087,051	14,490,040	15,597,011
Physical environment	3,386,600	3,258,300	1,496,388	1,761,912
Transportation	-	-	-	-
Economic development	8,242,800	8,579,450	3,881,847	4,697,603
Mental/physical health	32,000	32,000	16,407	15,593
Cultural and recreation	9,771,120	9,785,890	4,042,948	5,742,942
Capital outlay	3,302,500	3,302,500	350,245	2,952,255
Total expenditures	<u>75,523,129</u>	<u>76,921,999</u>	<u>33,091,327</u>	<u>43,830,672</u>
Excess (deficiency) of revenues over (under) expenditures	8,024,751	6,646,581	11,533,190	4,886,609
OTHER FINANCING SOURCES (USES)				
Transfers in	50,000	153,372	25,000	(128,372)
Transfers out	<u>(14,210,000)</u>	<u>(16,797,000)</u>	<u>(7,455,000)</u>	<u>9,342,000</u>
Total other financing sources (uses)	<u>(14,160,000)</u>	<u>(16,643,628)</u>	<u>(7,430,000)</u>	<u>9,213,628</u>
Net change in fund balance	(6,135,249)	(9,997,047)	4,103,190	14,100,237
Fund balance - beginning	11,828,505	19,733,831	19,733,831	-
Fund balance - ending	<u>\$ 5,693,256</u>	<u>\$ 9,736,784</u>	<u>\$ 23,837,021</u>	<u>\$ 14,100,237</u>

CITY OF SAMMAMISH

City of Sammamish
Schedule of the City's Proportionate Share of the Net Pension Liability
Public Employee Retirement System Plan 1
Last Three Years*
As of June 30

	Plan Year Ended			
	2014	2015	2016	2017
City's proportion of the net pension liability	0.060054%	0.063410%	0.061417%	0.064933%
City's proportionate share of the net pension liability	\$ 3,025,248	\$ 3,316,933	\$ 3,298,382	\$ 3,081,121
City's covered payroll	6,636,573	6,981,549	7,639,723	8,223,109
City's proportionate share of the net pension liability as a percentage of its covered payroll**	45.58%	47.51%	43.17%	37.47%
Plan fiduciary net position as a percentage of the total net pension liability	61.19%	59.10%	57.03%	61.24%

*Only four years of information are available due to the implementation of GASB 68 in 2015. Up to ten years of data will be shown as the information becomes available.

**The City does not currently employ any PERS Plan 1 members.

City of Sammamish
Schedule of the City's Proportionate Share of the Net Pension Liability
Public Employee Retirement System Plans 2 & 3
Last Three Years*
As of June 30

	Plan Year Ended			
	2014	2015	2016	2017
City's proportion of the net pension liability	0.077320%	0.081924%	0.078799%	0.083522%
City's proportionate share of the net pension liability	\$ 1,562,916	\$ 2,927,191	\$ 3,967,467	\$ 2,901,990
City's covered payroll	6,636,573	6,981,549	7,639,723	8,223,109
City's proportionate share of the net pension liability as a percentage of its covered payroll	23.55%	41.93%	51.93%	35.29%
Plan fiduciary net position as a percentage of the total net pension liability	93.29%	89.20%	85.82%	90.97%

*Only four years of information are available due to the implementation of GASB 68 in 2015. Up to ten years of data will be shown as the information becomes available.

CITY OF SAMMAMISH

City of Sammamish
 Schedule of City's Contributions
 Public Employee Retirement System Plan 1
 Last Three Fiscal Years*
 As of December 31

	Plan Year Ended			
	2014	2015	2016	2017
Statutorily required contribution	272,445	314,284	379,852	423,632
Contributions in relation to the contractually required contribution	272,445	314,284	379,852	423,632
Contribution deficiency (excess)	-	-	-	-
City's covered payroll	\$ 6,774,726	\$ 7,235,007	\$ 7,983,931	\$ 8,706,572
Contributions as a percentage of covered payroll	4.02%	4.34%	4.76%	4.87%

*Only four years of information are available due to the implementation of GASB 68 in 2015. Up to ten years of data will be shown as the information becomes available.

City of Sammamish
 Schedule of City's Contributions
 Public Employee Retirement System Plans 2 & 3
 Last Three Fiscal Years*
 As of December 31

	Plan Year Ended			
	2014	2015	2016	2017
Statutorily required contribution	337,128	403,033	496,116	595,864
Contributions in relation to the contractually required contribution	337,128	403,033	496,116	595,864
Contribution deficiency (excess)	-	-	-	-
City's covered payroll	\$ 6,774,726	\$ 7,235,007	\$ 7,983,931	\$ 8,706,572
Contributions as a percentage of covered payroll	4.98%	5.57%	6.21%	6.84%

*Only four years of information are available due to the implementation of GASB 68 in 2015. Up to ten years of data will be shown as the information becomes available.

BUDGETARY INFORMATION NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

Budgets and Budgetary Accounting

The City of Sammamish budgets its funds in accordance with the Revised Code of Washington (RCW) 35A.34. In compliance with the code, all funds have budgets. Budgets established for proprietary funds are “management budgets” and as such are not required to be reported in the financial statements.

The budget is proposed by the City Manager and adopted by the City Council with legal budgetary control at the fund level, i.e., the total of expenditures, other financing uses, and the ending fund balance may not exceed the total of beginning balances and budgeted receipts at the fund level. The City Manager may authorize transfers within funds; however, the City Council must approve by ordinance any additional appropriations, which increase the total for the fund. Any unexpended appropriation balances lapse at the end of the biennium.

In addition to authorizing the budget the City Council biennially approves the Capital Improvement Program. This is a six-year plan for capital project expenditures and anticipated revenue sources. Expenditures and revenues for these projects are budgeted in the Capital Improvements Program Funds.

The City prepares its budgets on the modified accrual basis, which conforms to generally accepted accounting principles. The CAFR includes budgetary comparisons for those governmental funds with legally adopted budgets. Budget amounts include the adopted budget appropriations and any revisions made during the biennium.

State law establishes the budget process and the time limits under which a budget must be developed. The City adopts its biennial budget in December of the year preceding the first year of the biennial budget. Step one involves the identification by the City Council of the mission and objectives for the following biennium. The second step involves forecasting revenue and the establishment of a baseline budget to carry the existing programs into the next biennium. The third step involves the development by each department director of their departmental budget requests. The City Manager develops a preliminary budget that is presented to the Council for review and public hearings. The Council approves an ordinance to adopt the budget. Supplemental appropriations that modify total fund expenditures require an ordinance amending the budget.

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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

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