



Office of the Washington State Auditor
Pat McCarthy

**Financial Statements and Federal Single Audit
Report**

City of Shoreline

King County

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

Published September 28, 2017

Report No. 1019981





Office of the Washington State Auditor
Pat McCarthy

September 28, 2017

Council
City of Shoreline
Shoreline, Washington

Report on Financial Statements and Federal Single Audit

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

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

Sincerely,

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

Pat McCarthy
State Auditor
Olympia, WA

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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

SECTION I – SUMMARY OF AUDITOR’S RESULTS

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

Financial Statements

We issued an unmodified opinion on the fair presentation of the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information in accordance with accounting principles generally accepted in the United States of America (GAAP).

Internal Control over Financial Reporting:

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

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

Federal Awards

Internal Control over Major Programs:

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

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

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

Identification of Major Federal Programs:

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

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

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

The City qualified as a low-risk auditee under the Uniform Guidance.

SECTION II – FINANCIAL STATEMENT FINDINGS

None reported.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.

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

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

Council
City of Shoreline
Shoreline, 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 Shoreline, King County, Washington, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated September 26, 2017.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

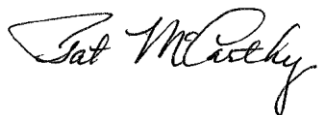
COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

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



Pat McCarthy

State Auditor

Olympia, WA

September 26, 2017

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

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

Council
City of Shoreline
Shoreline, Washington

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

We have audited the compliance of the City of Shoreline, King County, Washington, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended December 31, 2016. The City's major federal programs are identified in the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

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

Auditor's Responsibility

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

An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2016.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

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


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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. We did not identify any deficiencies

in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of this Report

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

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

Pat McCarthy

State Auditor

Olympia, WA

September 26, 2017

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

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

Council
City of Shoreline
Shoreline, 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 Shoreline, King County, Washington, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed on page 14.

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 Shoreline, as of December 31, 2016, and the respective changes in financial position and, where applicable, cash flows thereof, and the budgetary comparison for the General Fund, 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 on pages 16 through 26 and pension plan information on pages 61 through 62 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

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

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2017 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Pat McCarthy

State Auditor

Olympia, WA

September 26, 2017

FINANCIAL SECTION

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

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2016

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2016

Statement of Activities – 2016

Balance Sheet – Governmental Funds – 2016

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

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

Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and
Actual – General Fund – 2016

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

Statement of Net Position – Proprietary Funds – 2016

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

Statement of Cash Flows – Proprietary Funds – 2016

Statement of Net Position – Fiduciary Funds – 2016

Notes to Financial Statements – 2016

REQUIRED SUPPLEMENTARY INFORMATION

Schedules of Proportionate Share of the Net Pension Liability and Schedules of Employer
Contributions – PERS 1 – 2016

Schedules of Proportionate Share of the Net Pension Liability and Schedules of Employer
Contributions – PERS 2/3 – 2016

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Expenditures of Federal Awards – 2016

Notes to the Schedule of Expenditures of Federal Awards – 2016

Management Discussion and Analysis

As management of the City of Shoreline, we offer readers of the City of Shoreline's Financial Statements this narrative overview and analysis of the financial activities of the City of Shoreline for the fiscal year ended December 31, 2016.

Financial Highlights

- The Assets of the City Shoreline exceeded its Liabilities at the end of the most recent fiscal year by \$356,273,057. Of this amount, \$24,227,307 may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net position decreased by \$53,496 from 2015. Revenues from governmental activities exceeded governmental expenses by \$178,030 and business-type activity expenses exceeded revenue by \$231,528 in 2016.
- As of the close of 2016, the City of Shoreline's governmental funds reported combined ending net position balances of \$339,294,263 an increase of \$410,817 in comparison with the prior year. Approximately 6%, or \$20.38 million, constitutes assigned and unassigned fund balance, which is available for spending at the government's discretion for general operations.
- At the end of the current fiscal year, assigned and unassigned fund balance of the general fund was \$9,068,155 or 26%, of the total general fund expenditures.
- The City's total outstanding debt decreased \$266,474 during 2016. This change was the result of an increase of 2006 GO bonds refunding of \$55,000 and issuance of Surface Water Utility Revenue bonds \$2,000,000, the decrease by principal payment of \$1,995,000 on general obligation debt and the principal payment of \$326,475 on the Public Works Trust Fund Loan.

As of December 31, 2016, the City had total debt outstanding of \$33,312,374. This total amount represents both General Obligation Debt and outstanding Public Works Trust Fund loans. The City issued general obligation bonds in 2006 to be used for open space acquisition and park improvements. These bonds were refunded in 2016 and will be repaid over five years and have fixed interest rates of between 1.02% and 1.72%. They will be repaid by a voter approved property tax levy. The City issued general obligation bonds in 2009 to be used to pre-pay the lease on City Hall. The 2009 Series A LTGO bonds will be repaid over 8 years and have fixed interest rates of between 3% and 4%. The 2009 Series B LTGO bonds (Taxable Build America Bonds, Direct-Pay), will be repaid over 30 years and have variable fixed rates of between 4.69% and 6.4%. They will be repaid by real estate excise taxes and lease savings. The City issued 2013 LTGO bonds to finance the purchase of North Maintenance Facility and will repay these bonds over 20 years at a fixed interest rate of 3.75%. They will be repaid by general property taxes. The City issued Surface Water Utility Revenue bond in 2016 for various Surface Water Utility projects, the bonds will be repaid over 15 years and have fixed interest rate of 2.23%. The 2001 Public Works Trust Fund loans were used to complete the Ronald Bog and 3rd Avenue NW drainage improvement projects. These loans will be paid back over a 20 year period and have a fixed interest rate of 0.5%. The repayment will come from surface water utility fees.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Shoreline's basic Financial Statements. The City's basic financial statements comprise three components: 1) Government-Wide Financial Statements, 2) Fund Statements and 3) Notes to the Financial Statements.

Government-wide Financial Statements The Government-Wide Financial Statements are designed to provide readers with a broad overview of the City of Shoreline's finances, in a manner similar to a private-sector business.

The Statement of Net Position presents information on all of the City's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related 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 and earned but unused vacation leave).

The Government-Wide Financial Statements distinguishes functions of the City of Shoreline that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities for the City include general government, public safety, physical environment (e.g., construction inspection and capital planning and design), transportation, economic environment (e.g., permitting, planning), and culture & recreation. The business-type activity of the City is the surface water 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 objectives. The City of Shoreline, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Shoreline can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental 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, Governmental Fund Financial Statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the Government-Wide Financial Statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the Government-Wide Financial Statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City of Shoreline maintains fourteen individual governmental funds. Information is presented separately in the Governmental Fund Balance Sheet and in the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances for the General Fund, the General Capital Fund, and the Roads Capital Fund, all of which are considered to be major funds. Data from the other eleven governmental funds are combined into a single, aggregated presentation. The Shoreline Transportation Benefit District was previously reported as a blended component unit and has been merged into the roads capital fund in 2015 following the City Council approved merger.

The City of Shoreline adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget.

Proprietary Funds The City of Shoreline maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the Government-Wide Financial Statements. The City uses an enterprise fund to account for its surface water utility. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City of Shoreline's various functions. The City uses internal service funds to account for its fleet of vehicles and equipment. The City also uses an internal service fund to provide for its unemployment compensation obligations. Because the services accounted for within the City's internal service funds predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the Government-Wide Financial Statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the surface water utility, which is considered a major fund of the City of Shoreline. Conversely, the internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City of Shoreline, assets exceeded liabilities by \$356,273,057 as of December 31, 2016.

By far the largest portion of the City's net position (92%) reflects the investment in capital assets (e.g., infrastructure, land, buildings, machinery, and equipment); less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Table 1
City of Shoreline's Net Position
As of December 31, 2016

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Current and other assets	\$ 38,971,886	\$ 37,647,290	\$ 3,985,229	\$ 2,768,258	\$ 42,957,114	\$ 40,415,548
Capital assets	342,503,530	346,067,829	17,839,329	17,779,962	360,342,859	363,847,791
Total Assets	381,475,416	383,715,119	21,824,558	20,548,220	403,299,974	404,263,339
Deferred Outflow s of Resources	1,962,463	1,282,021	168,564	111,480	2,131,027	1,393,501
Total Assets and Deferred Outflow s of Resources	383,437,879	384,997,140	21,993,122	20,659,700	405,431,001	405,656,840
Non-Current liabilities	40,332,559	40,575,330	4,523,666	2,694,589	44,856,225	43,269,919
Other liabilities	3,586,335	4,294,608	474,032	414,681	4,060,367	4,709,289
Total liabilities	43,918,894	44,869,938	4,997,698	3,109,270	48,916,592	47,979,208
Deferred Inflow s of Resources	224,722	1,243,754	16,630	107,322	241,352	1,351,076
Net Position:						
Net Investment in Capital Assets	313,107,693	313,758,543	14,902,084	15,821,113	328,009,777	329,579,656
Restricted	4,035,973	4,535,028	-	-	4,035,973	4,535,028
Unrestricted	22,150,596	20,589,875	2,076,710	1,621,994	24,227,307	22,211,869
Total net position	\$ 339,294,263	\$ 338,883,448	\$ 16,978,794	\$ 17,443,108	\$ 356,273,057	\$ 356,326,556

The unrestricted net position of both governmental and business activities, \$24,227,307 may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net position, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

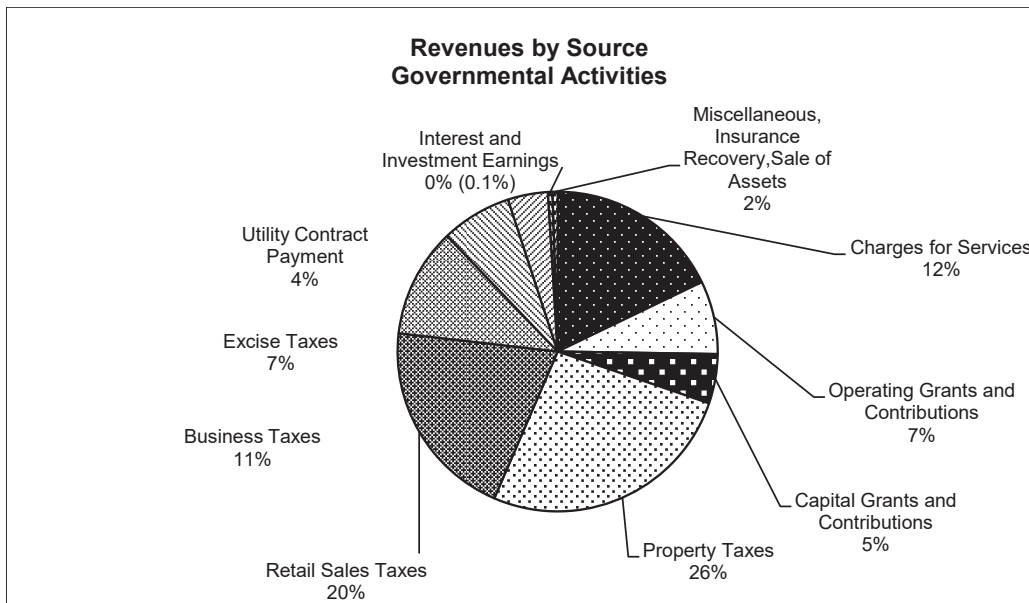
The City's net position decreased by \$53,499 compared to 2015 primarily as a result of decrease of capital assets valuation from depreciation. The unrestricted net position increased \$92,292.

Governmental Activities Governmental activities increased the City's net position by \$178,030, whereas the Business-type activities decreased \$231,528. Key elements of the decrease are as follows:

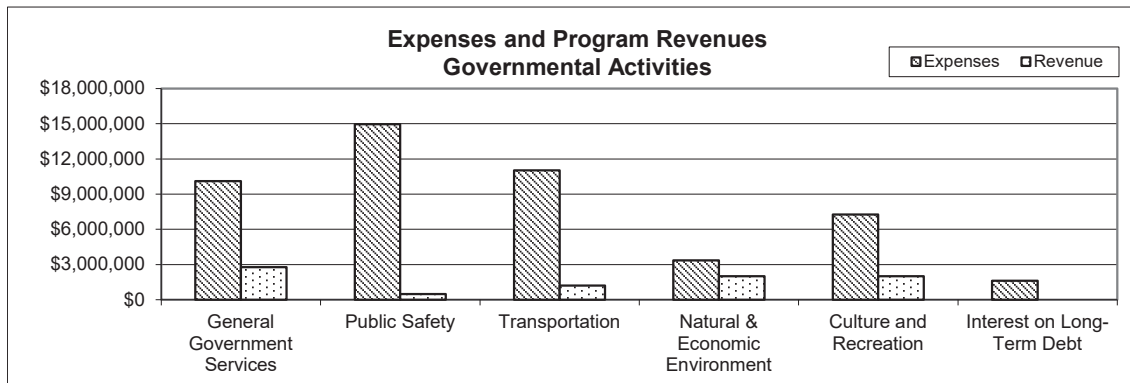
City of Shoreline's Changes in Net Position						
	Governmental activities		Business-type activities		Total	
	2016	2015	2016	2015	2016	2015
Revenues:						
Program Revenues:						
Charges for Services	\$ 8,629,336	\$ 7,066,980	\$ 3,980,509	\$ 3,617,790	\$ 12,609,845	\$ 10,684,770
Operating Grants and Contributions	3,525,828	3,992,715	35,456	32,727	3,561,283	4,025,442
Capital Grants and Contributions	2,379,934	15,175,171	185,783	196,156	2,565,718	15,371,327
General revenues:						
Property Taxes	12,481,835	12,367,344	-	-	12,481,835	12,367,344
Retail Taxes	9,685,093	9,136,396	-	-	9,685,093	9,136,396
Business Taxes	5,254,931	5,397,605	-	-	5,254,931	5,397,605
Excise Tax	3,389,274	3,628,810	-	-	3,389,274	3,628,810
Utility Contract Payment	1,925,632	1,756,769	-	-	1,925,632	1,756,769
Interest and Investment Earnings	216,028	107,211	8,005	4,004	224,033	111,215
Miscellaneous	244,256	154,394	24,470	-	268,726	154,394
Total Revenue	47,732,147	58,783,395	4,234,222	3,850,677	51,966,370	62,634,072
Expenses:						
General Government	10,122,775	9,829,055	-	-	10,122,775	9,829,055
Public Safety	14,956,956	14,959,084	-	-	14,956,956	14,959,084
Transportation	11,028,649	28,559,814	-	-	11,028,649	28,559,814
Natural & Economic Environment	3,345,107	3,214,375	-	-	3,345,107	3,214,375
Culture and Recreation	7,252,415	6,724,138	-	-	7,252,415	6,724,138
Interest on Long-Term Debt	1,609,241	1,701,308	-	-	1,609,241	1,701,308
Surface Water	-	-	3,826,450	3,076,821	3,826,450	3,076,821
Total Expenses	48,315,143	64,987,774	3,826,450	3,076,821	52,141,593	68,064,595
Increase in net position before transfers and extraordinary items	(582,996)	(6,204,379)	407,773	773,856	(175,223)	(5,430,523)
Transfers	642,343	651,501	(642,343)	(651,501)	-	-
Insurance Recoveries	37,411	18,106	3,042	1,275	40,453	19,381
Proceeds from Sale of Capital Assets	81,271	13,141	-	11,060	81,271	24,201
Increase in net position	178,030	(5,521,631)	(231,528)	134,690	(53,499)	(5,386,941)
Net position - January 1	338,883,448	352,273,056	17,443,108	17,992,590	356,326,556	370,265,646
Prior Period Adjustment	232,785	-	(232,785)	-	-	-
Change in Accounting Principle	-	(7,867,977)	-	(684,172)	-	(8,552,149)
Net position - December 31	<u>\$ 339,294,263</u>	<u>\$338,883,448</u>	<u>\$ 16,978,794</u>	<u>\$ 17,443,108</u>	<u>\$ 356,273,057</u>	<u>\$356,326,556</u>

Governmental revenues decreased year-over-year by \$11.1 million, or 19%, primarily as the result of decreases in capital grants and contributions in the construction of capital assets.

- Receipts from the Regular Property Tax Levy were \$114,491, or 1%, more due to an increase in assessed valuation and after applying an inflation factor to the property tax levy as authorized under the voter approve levy lid lift. Receipts from the Excess Property Tax Levy were \$239,536 or 7% less.
- Retail sales tax receipts were \$548,697, or 6%, more as we have seen an improving economy resulting in increased receipts from the Construction Sector of 21.5%. Local Criminal Justice Sales Tax receipts were \$115,193, or 8.3%, more as sales tax collected throughout King County was 9.4% more than the year-ago level.
- Revenues reported in the Business Taxes category decreased by \$142,674, or 3%. Gambling tax receipts were \$39,037, or 2.5%, less as gaming activity decreased largely due to the cessation of activity at a card room. Utility Contract Payment increased by \$168,863, or 10%, Utility tax receipts were \$160,155, or 4.4%, less. Collections from natural gas were less by \$54,547, or 6.9%, and from telecommunication services by \$114,545, or 8.9%.
- Revenues reported in the Excise Taxes category decreased by \$239,536, or 7%. The decrease is largely due to lower collections of real estate excise taxes, which were less by \$390,538, or 13.3%, due to a decrease in property sales values and sales volume.
- Revenues reported in the Miscellaneous category increased by \$89,864, or 58%, due to the reclassification of certain revenues in order to provide greater detail for those associated with specific functions.



Governmental expenses decreased year-over-year by \$16.7 million, or 25.7%. General Government expenses increased by \$293,720, or 3.0%. Public Safety decreased by \$2,128, or 0.01%, as increased contract costs for police services (\$213,075, or 2.0%) were offset by decreased contract costs for jail services (-\$535,519, or -28.6%). Transportation expenses decreased by \$17.5 million, or 61.4%, due to completion of major projects. Culture and Recreation increased by \$528,277, or 7.9%, primarily due to swimming pool renovation.



Business-type Activities Business-type activities decreased the City's net position by \$231,528. Key elements of this increase are as follows:

- Charges for services increased over 2015 by \$362,719 or 10%.
- Capital grants decreased from \$196,156 in 2015 to \$185,783 in 2016.
- Transfers to other funds increased from 2015 by \$9,158, representing an increase in the utility's share of the General Fund overhead.
- Expenses increased by \$749,629, or 24% from 2015, due to major projects.

Financial Analysis of the Government's Funds

As noted 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. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of December 31, 2016, the City's governmental funds reported combined ending fund balances of \$31,639,222, increasing year-over-year by \$3,007,257. There are four primary reasons for this increase: 1) the fund balance of the City's General Fund decreased by \$81,864 due to planned contribution of fund balance to city projects; 2) the fund balance increased by \$53,978 in the General Capital Fund as revenues exceeded expenditures due to increased revenue from real estate excise taxes; 3) the fund balance increased by \$3,698,519 in the Roads Capital Fund primarily due to a delay in billing for reimbursement of 2015 expenditures for the Aurora project, which were billed and received in 2016; and, 4) the fund balance increased by \$663,377 in the non-major funds largely due to the reinstatement of the 1% for Public Art transfer from the Aurora project to the Public Art Fund and receipt of Traffic Impact Fee revenue, which were slightly offset by the expenditure of federal seizure monies in support of the Police Station at City Hall project.

Approximately 58% or \$18.22 million constitutes assigned and unassigned fund balances, which are available for spending at the government's discretion for general operations. In addition to the fund balances available for general operations, there is nearly \$9.20 million of committed fund balance and \$4.04 million of restricted fund balance.

The City implemented GASB 54 during 2011 and the Financial Statements reflect that implementation. The General Fund as reported on the *Statement of Revenues, Expenditures and Changes in Fund Balances for Governmental Funds* consists of three funds: General Fund, Revenue Stabilization Fund, and Property Tax Equalization Fund. As of December 31, 2016, unassigned fund balance of the General

Fund was \$4,003,102, while total fund balance reached \$18,527,625. As a measure of General Fund liquidity, it may be useful to compare the unassigned fund balance and total fund balance to total fund expenditures. The unassigned fund balance is approximately 22% of the total fund balance and nearly 11% of the General Fund expenditures excluding transfers out.

The fund balance of the City's General Fund decreased year-over-year by \$81,864. The City's budget planned for the use of fund balance with a General Fund ending fund balance decrease of \$6,831,877. The planned use of fund balance included one-time allocations for the following purposes:

- \$1,007,729 for carryovers from 2015;
- \$710,634 for a budgeted operational contingency;
- \$255,000 for a budgeted insurance reserve;
- \$1,556,879 for one-time investments;
- \$1,000,000 to transfer to the General Capital Fund to support the Police Station @ City Hall project;
- \$600,000 to transfer to the Roads Capital Fund for the 185th Corridor Study project;
- \$200,000 to transfer to the Roads Capital Fund for the grant match set-aside;
- \$250,000 to transfer to the Roads Capital Fund for the Westminster and 155th Improvements project;
- \$600,000 to transfer to the City Facilities / Major Maintenance Fund for the Shoreline Pool Long-Term Maintenance project; and,
- \$691,313 to transfer from the Property Tax Equalization Fund to the General Fund for a one-time set-aside for vehicle replacement costs (\$91,584), to backfill the net revenue loss due to the Shoreline Pool closure (\$90,000), as a contingency for jail expenditures (\$300,000), and implementation of the Compensation and Classification Study (\$209,729).

Actual results were \$6.75 million better than anticipated. Key factors in this change are as follows:

General Fund revenues increased year-over-year by \$1.6 million, or 5%. Revenues were also over budget by \$293,156. The largest factors comprising the year-over-year increase include:

- Property tax receipts increased by \$143,026, or 1.3%;
- Sales tax receipts increased by \$548,697, or 6.0%;
- Total permit and land use revenues of \$2,006,624 increased by \$662,830, or 49.3%; and,
- Reimbursement per the Expedited Permitting and Staffing Agreement with Sound Transit of \$169,517.

General Fund expenditures, excluding operating transfers-out, increased year-over-year by \$1,333,796, or 4%. Expenditures were \$4,672,321 below budget. The most significant areas for budget savings included:

- General Government expenditures were \$1.85 million under budget. A large portion of the savings resulted from the City not using all of the budgeted operating contingency (\$710,634) and insurance reserve (\$255,000). Projects that were not completed in 2015 that will continue into 2016 include: evaluation of Business & Occupation Tax implementation (\$14,000); completion of Cityworks Phase III (\$184,126); completion of Permit and Customer Service System implementation (\$99,323); and, completion of SharePoint Phase II (\$18,682).
- Public Safety expenditures were \$1.81 million under budget primarily as a result of lower police services costs due to savings in salaries and benefits costs (\$178,252), continuation of the Response Awareness, De-escalation and Referral (RADAR) program in 2017 (\$521,253), and jail services costs due to the lower amount of jail beds used and the lower cost to house inmates at Yakima Jail (\$860,138).
- Transportation expenditures were \$219,735 under budget due to the continuation of the Light Rail Stations project per the Expedited Permitting and Staffing Agreement with Sound Transit, as well as a delay in contracted services to develop a American with Disability Act Self Evaluation and Transition Plan (\$32,768), conduct a tolling study (\$30,000), and develop a Streetlight Master Plan (\$30,000), which will continue into 2017.

- Natural and Economic Environment expenditures were \$411,538 under budget due to staff vacancies, as well as a delay in contract services to: develop an expression of interest prospectus per a Port of Seattle Economic Development Partnership Program Grant (\$48,500), establish procedures for administering an Affordable Housing Program (\$30,200), develop Draft Vegetation Management Plan Regulations for Critical Areas (\$48,327), and advance the City's Sustainability Initiative (\$49,650), which will continue into 2017.
- Culture and Recreation expenditures were \$465,494 under budget due to savings in staff costs and significantly lower utility costs for the parks (\$120,885) and pool (\$91,192), as well as a delay in contract services to develop Park Impact Fees (\$24,846), which will continue into 2017.

The General Capital Fund has a fund balance of \$3,007,656, which will be used for park and recreation capital improvements. The net increase in fund balance within the General Capital Fund was \$53,978. The primary reason for this increase is increased revenue from real estate excise taxes.

The Roads Capital Fund has a fund balance of \$5,882,386, which will be used for transportation capital improvements. The net increase in fund balance within the Roads Capital fund was \$3,698,519. The primary reason for this decrease is a delay in billing for reimbursement of 2015 expenditures for the Aurora project, which were billed and received in 2016.

Proprietary Funds The City's Proprietary Funds provide the same type of information found in the Government-wide Financial Statements, but in more detail.

The total net position of the City's Surface Water Utility Fund is \$16,978,794, which reflects a year-over-year decrease of \$464,314, or 3%. The net position available for general surface water operations at the end of 2016 amounted to \$2,093,340. Other factors concerning the finances of this fund have already been addressed in the discussion of the City's business-type activities.

General Fund Budgetary Highlights

For reporting purposes under GASB 54, the General Fund as reported on the *Statement of Revenues, Expenditures and Changes in Fund Balances for Governmental Funds* consists of three funds: General Fund, Revenue Stabilization Fund, and Property Tax Equalization Fund. The appropriations for these three funds are adopted separately by the City Council. During 2016, the budget was modified only in the General Fund. No changes in the appropriations were made in the other two funds. The following discussion is focused on the General Fund appropriation.

During the year there was a \$2,574,208 increase in appropriation between the original and final amended budget of the General Fund. The main components of the change in appropriation are:

- \$1,675,103 supplemental appropriation to fund projects initiated in 2015 that were not completed until 2016. Unexpended resources from 2015 resulted in a higher than anticipated ending 2015 fund balance, which was appropriated for these expenditures in 2016. The primary projects included: leadership and management development (\$25,000); developing a marketing campaign for Shoreline (\$122,157); Financial Consulting Solutions contract for Cost of Service Study (\$16,432); completion of SharePoint Phase I (\$6,000); completion of Class replacement (\$4,000); digital aerial photography and mapping (\$20,000); Vsphere License upgrade (\$9,906); GFI replacement (\$3,000); project management skills training (\$12,075); pool HVAC controls (JACE) replacement (\$18,000); transfer to Roads Capital Fund for grant match set-aside (\$500,000); continuation of the Response Awareness, De-escalation and Referral (RADAR) program (\$631,380); purchase of greenhouse supplies for gardening program (\$5,039); Teen & Youth Development Program training (\$4,917); map and plan revisions to light rail station subarea plans (\$77,704); strategic planning facilitation (\$4,400); support for Wastemobile and residential recycling programs (\$34,980); consultation on Solid Waste Procurement Contract (\$16,122); development of a Construction Manual (\$13,014); development of a Section 504 and American Disability Act Implementation (\$50,000); right-of-way inventory and condition assessment (\$56,000); development of a cost estimating tool (\$4,977); and, development of the 145th Street Route Development Plan (\$40,000).

- \$54,500 supplemental appropriation to develop a request for Expressions of Interest Prospectus per a Port of Seattle Economic Development Partnership Program Grant.
- \$11,464 supplemental appropriation for technical support and equipment acquisition for the staff added per the Expedited Permitting and Staffing Agreement with Sound Transit.
- \$17,000 supplemental appropriation for audio/video equipment repair/replacement.
- \$17,000 supplemental appropriation for cubicle set-up and acquisition of chairs for the staff added per the Expedited Permitting and Staffing Agreement with Sound Transit.
- \$4,634 supplemental appropriation to replace tools stolen in July 2015.
- \$238,004 supplemental appropriation to acquire an Asset Management system.
- \$43,000 supplemental appropriation for the demolition of the existing structure on the Molver property.
- \$17,252 supplemental appropriation for the fire benefit charge levied on City properties.
- \$58,303 supplemental appropriation to transfer to the City Facilities / Major Maintenance Fund support for the Roof Replacement and Major Repairs project.
- \$10,314 supplemental appropriation for the purchase of equipment with FY14 Byrne/JAG Program funds.
- \$15,000 supplemental appropriation reduction for the Asset Inventory for PRCS project to partially offset the cost of contracting out the Engineering Technician position for the Asset Management project.
- \$11,000 supplemental appropriation for vactoring services to meet National Pollution Discharge Elimination System permit requirements.
- \$25,000 supplemental appropriation for emergency/hazardous tree removal.
- \$4,865 supplemental appropriation to expand the Hang-Time program to Einstein Middle School.
- \$81,680 supplemental appropriation to add staff in City Planning per the Expedited Permitting and Staffing Agreement with Sound Transit.
- \$50,000 supplemental appropriation for solid waste contract services.
- \$175,451 supplemental appropriation to add staff in Engineering per the Expedited Permitting and Staffing Agreement with Sound Transit.
- \$94,638 supplemental appropriation to add staff in Transportation Services Program per the Expedited Permitting and Staffing Agreement with Sound Transit.

Capital Asset and Debt Administration

Capital Assets The city's investment in capital assets for its governmental and business-type activities as of December 31, 2016, totals \$360,342,859 net of accumulated depreciation. These assets include infrastructure, buildings, land, machinery and equipment, vehicles, road improvements, park facilities, and construction-in-progress.

Major capital asset events during the current fiscal year included the following:

Aurora Ave N 165th to 205th	1,880,110
Grease Monkey Parcel for Police Station	1,400,030
Swimming Pool Renovation	679,008
10th Ave NW Bridge (Hidden Lake Bridge)	541,348
SWM Construction work in progress: Stormwater Pipe Replacement	462,828
Construction work in progress: Police Station	371,101
SWM Construction work in progress: 25th Ave NE Flood Reduction Im	327,069
Construction work in progress: Maintenance Facility	237,988
Multiple Vehicles	222,206
Construction work in progress: Echo Lake Safe Routes to School	111,667

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Land	\$ 134,126,765	\$ 132,658,125	\$ 23,632	\$ 23,632	\$ 134,150,397	\$ 132,681,757
Buildings	27,497,436	28,808,263	-	-	27,497,436	28,808,263
Improvements other than buildings	15,568,998	15,840,020	391,930	399,929	15,960,928	16,239,949
Machinery and equipment	1,524,327	1,450,895	37,915	37,223	1,562,242	1,488,118
Infrastructure	162,534,130	166,718,227	16,048,310	16,452,231	178,582,440	183,170,458
Construction in progress	1,251,874	592,299	1,337,541	866,947	2,589,415	1,459,246
Total	\$ 342,503,530	\$ 346,067,829	\$ 17,839,329	\$ 17,779,962	\$ 360,342,859	\$ 363,847,791

Additional information on the City's capital assets can be found in Note 4 of the Financial Statements.

Long-term debt. As of December 31, 2016, the City had total debt outstanding of \$33,312,374. This total amount represents both General Obligation Debt and outstanding Public Works Trust Fund Loans. The City issued general obligation bonds in 2006 totaling \$18,795,000 to be used for open space acquisition and park improvements. These bonds were refunded in 2016 and will be repaid over five years and have fixed interest rates of between 1.02% and 1.72%. They will be repaid by a voter approved property tax levy. The City issued LT general obligation bonds totaling \$22,145,000 in 2009 to be used to purchase City Hall. The 2009 Series A LT GO bonds will be repaid over eight years and have fixed interest rates of between 3% and 4%. The 2009 Series B LT GO bonds (Taxable Build America Bonds, Direct-Pay), will be repaid over 30 years and have fixed interest rates of between 4.69% and 6.4%. They will be repaid by real estate excise taxes and lease revenue. The City issued 2013 LT GO bonds to finance the purchase of North Maintenance Facility and will repay these bonds over 20 years at a fixed interest rate of 3.75%. In 2016, the City issued Surface Water Utility Revenue bonds for various Surface Water Utility project, the bonds will be repaid over 15 years and have fixed interest rate of 2.23%. The Public Works Trust Fund loans issued in 2001, were used to complete the Ronald Bog and 3rd Avenue NW drainage improvement projects. These loans will be paid back over a 20 year period and have an interest rate of 0.5%. The repayment will come from surface water utility fees.

City of Shoreline's Outstanding Debt
General Obligation and Revenue Backed Debt

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
General Obligation	\$ 29,680,000	\$ 31,620,000	\$ 2,000,000	\$ -	\$ 31,680,000	\$ 31,620,000
Public Works Trust Fund Loans	-	-	1,632,374	1,958,848	1,632,374	1,958,848
Total	\$ 29,680,000	\$ 31,620,000	\$ 3,632,374	\$ 1,958,848	\$ 33,312,374	\$ 33,578,848

The City's total outstanding debt decreased \$266,474 during 2016. This change was result of increase by 2006 GO Bond refunding \$55,000 and issuance of Surface Water Utility Revenue bond \$2,000,000, and decrease by principal payment of \$1,995,000 on general obligation debt and the principal payment of \$326,475 on the Public Works Trust Fund Loan. Washington State statutes limit the amount of general obligation debt that a unit of government can issue to 7.5 percent of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for the City is \$613,549,434. The City has \$31,680,000 in outstanding general obligation debt as of December 31, 2016. Additional information regarding the City's long-term debt can be found in Note 10 of the Financial Statements.

Economic Factors and Next Year's Budgets and Rates

The following factors were considered in preparing the City's budget for the 2017 fiscal year.

- Employment is expected to advance at annual rates of 2.3% throughout Puget Sound and 1.8% throughout King County between 2016 and 2019.
- Unemployment is expected to drop 0.2% to 4.4% in King County between 2017 and 2018.
- Taxable retail sales are projected to advance at annual rates of 6.0% throughout Puget Sound and 6.3% throughout King County between 2016 and 2019.

- The number of housing permits issued is expected to decline by 3.0% throughout Puget Sound and 7.7% throughout King County between 2016 and 2019.
- Personal income in King County is expected to increase by 12.1% between 2015 and 2018.

Since the adoption of the 2017 budget, revenues have come in above projected levels. Retail sales tax and development fees are higher than expected. At this time, we are recommending that no budget changes be made in any of the City's revenue sources.

During 2016 the fund balance in the General Fund, excluding the Revenue Stabilization and Property Tax Equalization Funds, increased by \$603,310 to \$12,869,910. The total ending fund balance includes committed, assigned, and unassigned balances. The City's Reserve policy for the General Fund requires a Cash Flow Reserve of \$3,000,000, a Budget Contingency of 2% of operating revenues (\$791,220), and an Insurance Reserve of \$255,000) equaling a total required reserve of \$4,046,220. This required reserve level represents 9.9% of the 2017 General Fund budgeted expenditures excluding transfers out of \$41,061,023. The City currently maintains reserves that are more than three times the required level of reserves.

Requests for Information

The financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City of Shoreline Administrative Services Director, 17500 Midvale Ave N., Shoreline, WA 98133-4905.

**CITY OF SHORELINE
STATEMENT OF NET POSITION
DECEMBER 31, 2016**

MCAG No. 1015

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and Cash Equivalents	\$ 10,901,308	\$ 2,215,735	\$ 13,117,043
Investments	23,825,630	1,041,112	24,866,742
Receivables:			
Taxes	228,008	-	228,008
Accounts	1,680,908	87,205	1,768,114
Interest	32,745	-	32,745
Due from Other Governments	2,089,827	200,478	2,290,306
Prepayments	184,988	16,383	201,371
Notes/Contracts Receivable	28,471	-	28,471
Interfund Loan Receivable	-	424,315	424,315
Capital assets not being depreciated:			
Land	134,126,765	23,632	134,150,397
Construction in Progress	1,251,874	1,337,541	2,589,415
Capital Assets Net of Accumulated Depreciation:			
Buildings	27,497,436	-	27,497,436
Improvements Other than Buildings	15,568,998	391,930	15,960,928
Machinery and Equipment	1,524,327	37,915	1,562,242
Infrastructure	162,534,130	16,048,310	178,582,440
Total capital assets	342,503,530	17,839,329	360,342,859
Total assets	381,475,416	21,824,558	403,299,974
DEFERRED OUTFLOWS of RESOURCES			
Deferred Outflows - Pension	1,962,463	168,564	2,131,027
Total Assets and Deferred Outflows of Resources	383,437,879	21,993,122	405,431,001
LIABILITIES			
Current Liabilities:			
Accounts Payable	949,487	376,577	1,326,064
Salaries, Taxes & Benefits Payable	534,177	43,180	577,357
Interest Payable	80,084	4,761	84,845
Retainage Payable	120,343	10,689	131,032
Deposits	47,414	-	47,414
Interfund Loan Payable	424,315	-	424,315
Due to Other Governments	1,430,515	38,824	1,469,340
Due Within One Year	2,276,000	440,103	2,716,103
Due in More Than One Year	28,349,119	3,239,438	31,588,557
Due in More Than One Year-Net Pension Liability	9,707,440	844,125	10,551,565
Total liabilities	43,918,894	4,997,698	48,916,592
DEFERRED INFLOWS of RESOURCES			
Deferred inflows - Pension	191,251	16,630	207,881
Deferred inflows - Grants	9,497	-	9,497
Deferred inflows - Loss on Refunding	23,974	-	23,974
Total deferred inflows of resources	224,722	16,630	241,352
NET POSITION			
Net investment in Capital Assets	313,107,693	14,902,084	328,009,777
Restricted			
Open Space/Transportation	97,067	-	97,067
State Drug Enforcement Seizures	207,833	-	207,833
Fed Drug Enforcement Seizures	309,623	-	309,623
Transportation Impact Fees	1,201,065	-	1,201,065
Debt Service	4,295	-	4,295
Capital Improvements	2,216,090	-	2,216,090
Unrestricted	22,150,596	2,076,710	24,227,307
Total net position	\$ 339,294,263	\$ 16,978,794	\$ 356,273,057

The Accompanying Notes Are An Integral Part Of This Statement

MCAG No. 1015

**CITY OF SHORELINE
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2016**

Function/Program	Program Revenues				Net (Expenses) Revenues and Change 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 Services	\$ 10,122,775	\$ 2,781,757	\$ 1,128,708	\$ 23,732	\$ (6,188,578)	\$ -	\$ (6,188,578)
Public Safety	14,956,956	489,690	426,123	-	(14,041,143)	-	(14,041,143)
Transportation	11,028,649	1,216,085	1,401,774	2,314,254	(6,096,537)	-	(6,096,537)
Natural & Economic Environment	3,345,107	2,006,937	541,447	-	(796,724)	-	(796,724)
Culture and Recreation	7,252,415	2,134,867	27,777	41,949	(5,047,823)	-	(5,047,823)
Interest on Long-Term Debt	1,609,241	-	-	-	(1,609,241)	-	(1,609,241)
Total Governmental Activities	48,315,143	8,629,336	3,525,828	2,379,934	(33,780,045)	-	(33,780,045)
Business-Type Activities							
Surface Water	3,826,450	3,980,509	35,456	185,783	-	375,298	375,298
Total Business-Type Activities	3,826,450	3,980,509	35,456	185,783	-	375,298	375,298
General Revenues:							
Taxes							
Property Taxes, Levied for General Purposes					10,789,319	-	10,789,319
Property Taxes, Levied for 2006 GO Bond					1,692,516	-	1,692,516
Retail Sales Taxes					9,685,093	-	9,685,093
Business Taxes					5,254,931	-	5,254,931
Excise Taxes					3,389,274	-	3,389,274
Utility Contract Payment					1,925,632	-	1,925,632
Interest and Investment Earnings					216,028	8,005	224,033
Miscellaneous					244,256	24,470	268,726
Gain from Sale of Capital Assets					81,271	-	81,271
Insurance Recovery					37,411	3,042	40,453
Transfers					642,343	(642,343)	-
Total General Revenues, Special Items, and Transfers					33,958,075	(606,827)	33,351,248
Change in Net Position					178,030	(231,528)	(53,499)
Net Position - Beginning of Year					338,883,448	17,443,108	356,326,556
Prior Period Adjustment					232,785	(232,785)	-
Net Position - End of Year	\$	\$ 339,294,263	\$ 16,978,794	\$ 356,273,057	\$	\$	\$

The Accompanying Notes Are An Integral Part Of This Statement.

**CITY OF SHORELINE
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2016**

MCAG No. 1015

	General Fund	General Capital Fund	Roads Capital Fund	Other Governmental Funds	Total Governmental Funds
ASSETS and DEFERRED OUTFLOWS of RESOURCES					
Cash and cash equivalents	\$ 3,494,566	\$ 923,668	\$ 3,756,653	\$ 1,771,066	\$ 9,945,954
Investments	15,183,084	2,064,090	2,079,006	2,529,466	21,855,646
Receivables:					
Taxes	191,940	-	-	36,068	228,008
Accounts	1,662,952	-	-	17,957	1,680,908
Interest	30,448	-	-	76	30,525
Due from Other Governments	1,563,093	144,059	382,182	494	2,089,827
Prepayments	158,906	3,768	8,086	10,583	181,342
Notes/Contracts Receivable	28,471	-	-	-	28,471
Total assets	22,313,460	3,135,585	6,225,927	4,365,710	36,040,681
Deferred Outflows of Resources	-	-	-	-	-
Total Assets and Deferred Outflows of Resources	\$ 22,313,460	\$ 3,135,585	\$ 6,225,927	\$ 4,365,710	\$ 36,040,681
LIABILITIES, DEFERRED INFLOWS of RESOURCES and FUND BALANCES:					
Liabilities:					
Accounts Payable	\$ 693,402	\$ 76,235	\$ 41,841	\$ 66,179	\$ 877,658
Salaries, Taxes & Benefits Payable	471,067	9,892	25,262	22,548	528,770
Retainage Payable	113,449	6,894	-	-	120,343
Unearned Revenues	548,128	34,484	156,846	16,199	755,657
Deposits	8,339	-	39,075	-	47,414
Interfund Loan Payable	424,315	-	-	-	424,315
Due to Other Governments	1,330,718	423	80,516	3,160	1,414,818
Total Liabilities	3,589,418	127,929	343,541	108,086	4,168,974
Deferred Inflows of Resources					
Deferred inflows - Grants	9,497	-	-	-	9,497
Deferred inflows - Property Tax	186,920	-	-	36,068	222,988
Total Deferred Inflows	196,417	-	-	36,068	232,485
Fund Balances:					
Nonspendable	158,906	3,768	8,086	10,223	180,983
Restricted	97,067	317,634	1,059,638	2,561,634	4,035,973
Committed	9,203,497	-	-	-	9,203,497
Assigned	5,065,053	2,686,255	4,814,662	1,649,698	14,215,667
Unassigned	4,003,102	-	-	-	4,003,102
Total Fund Balances	18,527,625	3,007,656	5,882,386	4,221,555	31,639,222
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 22,313,460	\$ 3,135,585	\$ 6,225,927	\$ 4,365,710	
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, therefore, are not reported in the funds.					341,485,356
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.					755,657
Deferred outflows related to pension costs are not reported on fund balance sheets					1,962,463
Deferred outflows related to unamortized balances of deferred charges for refunding					(23,974)
Long-term liabilities, including bonds payable, are not due and payable in the current period and accordingly are not reported as fund liabilities.					(40,412,643)
Deferred Inflows for property taxes are deferred in funds.					222,988
Deferred Inflows for pensions are not reported on fund balance sheets					(191,251)
Wages payable are reported in the Statement of Net Assets, but they are not due and payable in the current period and not reported as liabilities on fund balance sheets.					
Internal service funds are used by management to charge the costs of fleet management and unemployment to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position.					3,856,444
Net Position of Governmental Activities					<u>\$ 339,294,263</u>

The Accompanying Notes are An Integral Part of this Statement.

CITY OF SHORELINE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR YEAR ENDED DECEMBER 31, 2016

MCAG No. 1015

	General Fund	General Capital	Roads Capital	Other Governmental Funds	Total Governmental Funds
REVENUES					
Taxes	\$ 25,760,945	\$ 1,272,745	\$ 2,108,394	\$ 1,688,963	\$ 30,831,047
Licenses & Permits	4,391,074	-	193	-	4,391,267
Intergovernmental	3,500,370	141,460	4,280,214	1,600,161	9,522,204
Charges for Services	1,814,904	-	-	943,698	2,758,602
Fines & Forfeits	384,847	-	-	14,050	398,897
Investment Earnings	147,409	8,595	17,335	25,744	199,082
Miscellaneous	1,133,291	31,198	1	61,761	1,226,252
Total Revenues	37,132,840	1,453,998	6,406,136	4,334,377	49,327,351
EXPENDITURES					
Current:					
General Government Services	9,403,721	98,954	-	1,120	9,503,795
Public Safety	14,810,984	-	-	64,460	14,875,444
Transportation	2,222,803	-	745,959	1,164,114	4,132,876
Natural & Economic Environment	3,337,784	-	-	-	3,337,784
Culture & Recreation	5,290,516	542,760	-	148,620	5,981,896
Debt Service:					
Principal	-	-	-	1,995,000	1,995,000
Interest and Other Related Costs	-	-	-	1,664,130	1,664,130
Capital Expenditures:					
General Government	16,218	237,988	-	-	254,206
Public Safety	-	1,771,127	-	-	1,771,127
Culture & Recreational	-	25,669	-	679,008	704,677
Transportation	68,610	-	2,696,519	42,231	2,807,359
Total Expenditures	35,150,635	2,676,498	3,442,478	5,758,683	47,028,294
Excess (Deficiency) of Revenues over Expenditures	1,982,205	(1,222,500)	2,963,658	(1,424,306)	2,299,057
OTHER FINANCING SOURCES (USES)					
Transfers In	1,020,761	1,951,131	1,001,227	2,798,094	6,771,212
Transfers Out	(3,101,903)	(688,523)	(277,638)	(2,073,776)	(6,141,840)
Proceeds from the Issuance of General Obligation Bond	-	-	-	7,595,000	7,595,000
Advance Refunding Escrow	-	-	-	(7,563,974)	(7,563,974)
Proceeds from the Sale of Capital Assets	1,784	13,870	-	225	15,879
Insurance Recoveries	15,290	-	11,273	5,361	31,923
Total other financing sources and uses	(2,064,069)	1,276,478	734,861	760,929	708,200
Net Change in Fund Balances	(81,864)	53,978	3,698,519	(663,377)	3,007,257
Fund balances - beginning	18,609,489	2,953,678	2,183,867	4,884,932	28,631,965
Fund balances - ending	\$ 18,527,625	\$ 3,007,656	\$ 5,882,386	\$ 4,221,555	\$ 31,639,222

The Accompanying Notes Are An Integral Part Of This Statement.

CITY OF SHORELINE
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR YEAR ENDED DECEMBER 31, 2016

MCAG No. 1015

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

Net change in fund balances - total governmental funds	\$ 3,007,257
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 amount by which capital outlays exceeded/ (were less than) depreciation in the current period.	(3,677,556)
The issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on the net position. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	2,011,810
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds	(1,624,347)
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.	(2,188)
Internal service funds are used by management to charge the costs of fleet management, management information systems, and unemployment to individual funds. The net revenue of certain activities of internal service funds is reported with governmental activities.	463,053
Change in net position of governmental activities	<u>\$ 178,030</u>

The Accompanying Notes Are An Integral Part Of This Statement.

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND
FOR YEAR ENDED DECEMBER 31, 2016**

MCAG No. 1015

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
REVENUES				
Taxes	\$ 25,737,960	\$ 25,737,960	\$ 25,760,945	\$ 22,985
Licenses & Permits	3,681,024	3,681,024	4,391,074	710,050
Intergovernmental	3,019,841	4,150,746	3,500,370	(650,376)
Charges for Services	1,499,616	1,499,616	1,814,904	315,288
Fines & Forfeits	454,050	454,050	384,847	(69,203)
Investment Earnings	69,000	69,000	147,409	78,409
Miscellaneous	1,100,073	1,247,288	1,133,291	(113,997)
Total revenues	35,561,564	36,839,684	37,132,840	293,156
EXPENDITURES				
General Government Services	10,891,107	11,254,436	9,403,721	(1,850,715)
Public Safety	15,865,225	16,620,650	14,810,984	(1,809,666)
Transportation	2,031,746	2,442,538	2,222,803	(219,735)
Natural & Economic Environment	3,385,899	3,749,322	3,337,784	(411,538)
Culture & Recreation	5,633,074	5,756,010	5,290,516	(465,494)
Capital Exps - General Government	-	-	16,218	16,218
Capital Exps - Transportation	-	-	68,610	68,610
Total expenditures	37,807,051	39,822,956	35,150,635	(4,672,321)
Excess (Deficiency) of Revenues over Expenditures	(2,245,487)	(2,983,272)	1,982,205	4,965,477
OTHER FINANCING SOURCES (USES)				
Transfers In	1,020,761	1,020,761	1,020,761	-
Transfers Out	(4,326,063)	(4,884,366)	(3,101,903)	1,782,463
Proceeds from the Sale of Capital Assets	-	-	1,784	1,784
Insurance Recoveries	15,000	15,000	15,290	290
Total other financing sources and uses	(3,290,302)	(3,848,605)	(2,064,069)	1,784,536
Net change in fund balances	(5,535,789)	(6,831,877)	(81,864)	6,750,013
Fund balances - beginning	18,609,489	18,609,489	18,609,489	-
Fund balances - ending	\$ 13,073,700	\$ 11,777,612	\$ 18,527,625	\$ 6,750,013

The Accompanying Notes Are An Integral Part Of This Statement.

City of Shoreline, Washington
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
General Fund - Reconciliation
For Year Ended December 31, 2016

MCAG No. 1015

	Budgeted Amounts		Actual Amounts	Variance to Final Budget
	Original	Final		
REVENUES				
Investment Interest - General Fund, As Adopted	\$ 69,000	\$ 69,000	\$ 141,270	\$ 72,270
Investment Interest - Property Tax Equalization Fund	-	-	6,139	6,139
Investment Interest - General Fund As Reported	<u>\$ 69,000</u>	<u>\$ 69,000</u>	<u>\$ 147,409</u>	<u>\$ 78,409</u>
OTHER FINANCING SOURCES (USES):				
Operating Transfers Out - General Fund, As Adopted	\$ (4,326,063)	\$ (4,884,366)	\$ (3,101,903)	\$ 1,782,463
Operating Transfers Out - Property Tax Equalization Fund	(691,313)	(691,313)	(691,313)	-
Operating Transfers Out - General Fund, As Reported	<u>\$ (5,017,376)</u>	<u>\$ (5,575,679)</u>	<u>\$ (3,793,216)</u>	<u>\$ 1,782,463</u>
FUND BALANCES - BEGINNING				
General Fund, As Adopted	\$ 12,266,599	\$ 12,266,599	\$ 12,266,599	\$ -
Revenue Stabilization Fund	5,150,777	5,150,777	5,150,777	-
Property Tax Equalization Fund	1,192,112	1,192,112	1,192,112	-
Beginning Fund Balances - General Fund, As Reported	<u>\$ 18,609,489</u>	<u>\$ 18,609,489</u>	<u>\$ 18,609,489</u>	<u>\$ -</u>
FUND BALANCES - ENDING				
General Fund, As Adopted	\$ 7,422,123	\$ 6,126,035	\$ 12,869,910	\$ 6,743,874
Revenue Stabilization Fund	5,150,777	5,150,777	5,150,777	-
Property Tax Equalization Fund	500,799	500,799	506,938	6,139
Ending Fund Balance - General Fund, As Reported	<u>\$ 13,073,700</u>	<u>\$ 11,777,612</u>	<u>\$ 18,527,625</u>	<u>\$ 6,750,013</u>

**CITY OF SHORELINE
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2016**

MCAG No. 1015

	Business-Type Activities - Enterprise Funds Surface Water Utility	Governmental Activities Internal Service Funds
ASSETS and DEFERRED OUTFLOWS of RESOURCES		
Current Assets:		
Cash and cash equivalents	\$ 2,215,735	\$ 955,354
Investments	1,041,112	1,969,985
Receivables		
Accounts	87,205	-
Interest	-	2,220
Due from Other Governments	200,478	-
Prepayments	16,383	3,646
Total current assets	<u>3,560,914</u>	<u>2,931,205</u>
Noncurrent Assets:		
Interfund Loan Receivable	424,315	-
Capital assets not being depreciated:		
Land	23,632	-
Construction in Progress	1,337,541	-
Capital assets being depreciated:		
Improvements other than buildings	391,930	-
Machinery & Equipment	37,915	1,018,174
Infrastructure	<u>16,048,310</u>	<u>-</u>
Total capital assets (net)	<u>17,839,329</u>	<u>1,018,174</u>
Total noncurrent assets	<u>18,263,644</u>	<u>1,018,174</u>
TOTAL ASSETS	<u>21,824,558</u>	<u>3,949,379</u>
DEFERRED OUTFLOWS of RESOURCES		
Deferred Outflows - Pension	<u>168,564</u>	<u>-</u>
LIABILITIES		
Current Liabilities:		
Accounts Payable	376,577	71,829
Salaries, Taxes & Benefits Payable	43,180	5,408
Public Works Trust Fund Loan Payable	326,475	-
2016 Revenue Bonds Payable	113,628	-
Interest Payable	4,761	-
Retainage Payable	10,689	-
Due to Other Governments	38,824	15,698
Total current liabilities	<u>914,134</u>	<u>92,934</u>
Noncurrent Liabilities:		
Compensated Absences Payable	47,167	-
2016 Revenue Bonds Payable	1,886,372	-
Public Works Trust Fund Loan Payable	1,305,899	-
Net Pension Liability	844,125	-
Total noncurrent liabilities	<u>4,083,563</u>	<u>-</u>
TOTAL LIABILITIES	<u>4,997,698</u>	<u>92,934</u>
DEFERRED INFLOWS of RESOURCES		
Deferred Inflows - Pension	<u>16,630</u>	<u>-</u>
NET POSITION		
Net Investment in Capital Assets	14,902,084	1,018,174
Unrestricted	2,076,710	2,838,270
TOTAL NET POSITION	<u>\$ 16,978,794</u>	<u>\$ 3,856,444</u>

The Accompanying Notes Are An Integral Part Of This Statement.

**CITY OF SHORELINE
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR YEAR ENDED DECEMBER 31, 2016**

MCAG No. 1015

	Business-type Activities Enterprise Funds Surface Water Utility	Governmental Activities Internal Service Funds
OPERATING REVENUES:		
Charges for Services	\$ 3,980,509	\$ 752,815
Total operating revenues	<u>3,980,509</u>	<u>752,815</u>
OPERATING EXPENSES:		
General Operations	3,320,146	195,803
Depreciation	461,664	165,956
Total operating expenses	<u>3,781,810</u>	<u>361,759</u>
Operating income	<u>198,699</u>	<u>391,056</u>
NONOPERATING REVENUES (EXPENSES)		
Interest Income	8,005	16,946
Miscellaneous	24,470	-
Interest and Other Related Costs	(44,640)	-
Intergovernmental	35,456	-
Total Nonoperating revenues (expenses)	<u>23,291</u>	<u>16,946</u>
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	<u>221,990</u>	<u>408,003</u>
Capital Contributions - Other Governments	185,783	-
Gain/(Loss) from Sale of Capital Assets	-	65,392
Insurance Recovery	3,042	5,488
Transfers In	-	12,971
Transfers Out	(642,343)	-
CHANGE IN NET POSITION	<u>(231,528)</u>	<u>491,854</u>
NET POSITION		
Total unassigned net position - beginning	17,210,323	3,364,590
Total unassigned net position - ending	<u>\$ 16,978,794</u>	<u>\$ 3,856,444</u>

The Accompanying Notes Are An Integral Part Of This Statement.

**CITY OF SHORELINE
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016**

MCAG No. 1015

	Business-type Activities Enterprise Funds	Governmental Activities Internal Service Funds
	Surface Water	
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 3,984,952	\$ -
Receipts from interfund services provided	-	752,815
Payments to suppliers	(1,529,650)	(196,668)
Payments to employees	(1,279,161)	-
Payments for interfund services used	(209,018)	-
Payments to other governments	(245,134)	-
Net cash provided by operating activities	<u>721,990</u>	<u>556,147</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Operating grants	35,456	-
Interfund loan receivable	(141,352)	-
Transfers (to) / from funds	(642,343)	21,400
Miscellaneous revenues	24,470	5,488
Net cash provided (used) by noncapital activities	<u>(723,769)</u>	<u>26,888</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from capital debt	2,000,000	-
Acquisition and construction of capital assets	(526,520)	(279,211)
Principal paid on capital debt	(326,475)	-
Interest paid on capital debt	(45,592)	-
Insurance recovery	3,042	-
Capital grants	202,537	65,392
Net cash provided (used) by capital and related financing activities	<u>1,306,992</u>	<u>(213,819)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Receipts of interest and dividends	8,005	15,460
Proceeds from the sale of investments	2,787,875	2,750,859
Purchase of investments	(2,862,196)	(3,095,320)
Net cash provided by investing activities	<u>(66,316)</u>	<u>(329,001)</u>
 Net increase (decrease) in cash and cash equivalents	 1,238,897	 40,215
Cash and cash equivalents, January 1	<u>976,838</u>	<u>915,139</u>
Cash and cash equivalents, December 31	<u><u>2,215,735</u></u>	<u><u>955,354</u></u>
 Reconciliation of operating income to net cash provided (used) by operating activities:		
Operating Income (Loss)	<u>198,699</u>	<u>382,627</u>
Adjustments to Reconcile Operating Income (Loss)		
Net Cash Provided By Operating Activities:		
Depreciation expense	461,664	165,956
Changes in Assets and Liabilities		
(Increase) Decrease in accounts receivable	627	-
(Increase) Decrease in delinquent fee receivable	3,816	-
(Increase) Decrease in prepaids	(16,383)	(3,646)
(Increase) Decrease in deferred outflows - pension	(57,084)	-
Increase (Decrease) in wages and benefits payable	2,406	-
Increase (Decrease) in accounts payable	77,009	8,508
Increase (Decrease) in intergovernmental payables	(13,624)	2,702
Increase (Decrease) in compensated absences payable	21,364	-
Increase (Decrease) in net pension liability	134,187	-
Increase (Decrease) in deferred inflows - pension	(90,692)	-
Total adjustments	<u>523,291</u>	<u>173,520</u>
Net cash provided by operating activities	<u><u>\$ 721,990</u></u>	<u><u>\$ 556,147</u></u>
 Noncash investing, capital, and financing activities:		
Increase (Decrease) in fair value of investments	-	-

The Accompanying Notes are an Integral Part of this Statement.

**CITY OF SHORELINE, WASHINGTON
STATEMENT OF NET POSITION
FIDUCIARY FUNDS
DECEMBER 31, 2016**

MCAG No. 1015

	<u>AGENCY FUND TOTAL</u>
ASSETS and DEFERRED OUTFLOWS of RESOURCES	
Current Assets:	
Cash and cash equivalents	\$ 444,331
Total current assets	<u>444,331</u>
 TOTAL ASSETS	 <u>444,331</u>
DEFERRED OUTFLOWS of RESOURCES	
TOTAL DEFERRED OUTFLOWS of RESOURCES	<u>-</u>
LIABILITIES	
Current Liabilities:	
Accounts Payable	45
Deposits	13,440
Due to Other Governments	1,217
Custodial Accounts	<u>429,629</u>
Total current liabilities	<u>444,331</u>
TOTAL LIABILITIES	<u>444,331</u>
DEFERRED INFLOWS of RESOURCES	
TOTAL DEFERRED INFLOWS of RESOURCES	<u>-</u>
 NET POSITION	
TOTAL NET POSITION	 <u><u>\$ -</u></u>

The Accompanying Notes Are An Integral Part Of This Statement.

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Shoreline have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies are described below.

A. REPORTING ENTITY

The City of Shoreline was incorporated on August 31, 1995 and operates under the laws of the state of Washington applicable to a non-charter code city with a Council-Manager form of government. Shoreline is administered by a City Manager and a seven member City Council, with one of its members serving as Mayor. The City's major operations are as authorized under the laws of the State of Washington applicable to a non-charter code city.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The Government-Wide Financial Statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the non-fiduciary activities of the City. 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 are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. The City's policy is not to allocate indirect costs to a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

The Government-Wide Financial Statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year 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 60 days of the end of the current 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 the long-term portion of compensated absences and claims and judgments, are recorded only when payment is due.

Retail Sales and Use Taxes: GASB Statement 22, Accounting for Taxpayer-Assessed Tax Revenues in Governmental Funds, requires that revenues from taxpayer-assessed taxes such as sales taxes, net of estimated refunds, should be recognized in the accounting period in which they become susceptible to accrual - that is, when they become both measurable and available to finance expenditures of the fiscal period. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Current year sales taxes to be received in February of the ensuing year have been judged impractical to accrue in the current year and accordingly are not presented within these financial statements.

Licenses, permits and interest associated within the current period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Property taxes and all other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

General Fund

The General Fund is the City's operating fund. It accounts for all financial resources and transactions of the general government except those required to be accounted or elected to be accounted for in another fund. Major resources include property tax, sales tax, utility tax and franchise fees, gambling tax, licenses and permits, charges for services and intergovernmental revenue. Major programs include public safety (police, prosecuting attorney, jail housing, permitting, building inspection, and code enforcement), general governmental services (finance, legal, human resources, and facilities), culture and recreation (parks and recreation), natural and economic environment (economic development, planning, and environmental services).

General Capital Improvement Fund

This fund receives resources designated specifically for capital purposes such as proceeds from the 2006 General Obligation Bond and the 2013 Limited Tax General Obligation Bond as well as real estate excise tax. Projects in the General Capital Fund are divided into two major categories: facilities projects and parks projects.

Roads Capital Improvement Fund

This fund receives resources designated specifically for transportation related capital purposes such as funding from the TBD, real estate excise tax, capital grants, and support from the General Fund. Projects in the Roads Capital Fund are divided into three major categories: pedestrian/non-motorized projects, system preservation projects, and safety/operational projects.

The City reports the following major proprietary fund:

Surface Water Utility Enterprise Fund

This fund accounts for the resources received and expenses required for the operations of the City's surface water utility and construction of capital facilities. The primary revenue source for this fund is a storm drainage fee which is assessed annually against both residential and commercial properties.

Additionally, the City reports the following fund types:

Debt Service Funds account for the accumulation of resources for the payment of general obligation bond principal, interest and related costs.

Internal Service Funds account for equipment rental and fleet management provided to other departments of the City on a cost reimbursement basis. Also included is the management of unemployment related costs which is solely funded by the General Fund and is not charged on a reimbursement basis.

The Agency Fund is used to account for the collection of state sales tax and other fees of the State of Washington or other special districts. The City serves as the fiduciary agent for the

Northshore/Shoreline Community Network. Their checkbook balances are reported within the Northshore/Shoreline Community Network Agency Fund.

As a general rule the effect of interfund activity has been eliminated from the Government-Wide Financial Statements.

Amounts reported as program revenues include 1) charges to customers, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than program revenues. General revenues include all taxes.

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

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first when possible, then to use unrestricted resources as needed.

D. BUDGETARY INFORMATION

1. Budgetary Basis of Accounting

Annual appropriated budgets are adopted for the general, special revenue, debt service, internal service, and proprietary funds on the modified accrual basis of accounting and constitute the legal authority for expenditures. The appropriated budget is prepared by fund, and department. Appropriations in all budgeted funds lapse at the end of the fiscal year even if they have related encumbrances. Encumbrances are commitments related to unperformed (executory) contracts for goods or services (i.e., purchase orders, contracts, and commitments).

Encumbrance accounting is utilized to the extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning and control. While all appropriations and encumbrances lapse at year end, valid outstanding encumbrances (those for which performance under the executory contract is expected in the next year) are re-appropriated and become part of the subsequent year's budget pursuant to state regulations.

2. Amending the Budget

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

When the City Council determines that it is in the best interest of the City to increase or decrease the appropriation for a particular fund, it may do so by ordinance.

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

The financial statements contain the original and final budget information for the General Fund. The original budget is the first complete appropriated budget. The final budget is the original budget adjusted by all reserves, transfers, allocations, supplemental appropriations, and other legally authorized changes applicable for the fiscal year.

E. ASSETS, DEFERRED OUTFLOWS, LIABILITIES, DEFERRED INFLOWS AND EQUITIES

1. Cash and Cash Equivalents

It is the City's policy to invest all temporary cash surpluses. At December 31, 2016, the treasurer was holding \$13,117,043 in short-term residual investments of surplus cash. This amount is classified on the balance sheet as cash and cash equivalents in various funds. The interest on these investments is prorated to the various funds.

The amounts reported as cash and cash equivalents also include compensating balances maintained with certain banks in lieu of payments for services rendered. The average compensating balances maintained during 2016 were approximately \$2,320,101.

For purposes of the statement of cash flows, the City considers all highly liquid investments to be cash held in the City's bank accounts, petty cash, and change accounts and are therefore included as cash equivalents.

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

3. Receivables

Taxes Receivable consist of property taxes, surface water utility taxes, and related interest and penalties (see Note 3 *Property Taxes*). Accrued Interest Receivable consists of amounts earned on investments, notes, and contracts at the end of the year.

Customer Accounts Receivable consist of amounts owed from private individuals or organizations for goods and services including amounts owed for which billings have not been prepared. Notes and contracts receivable consist of amounts owed on open account from private individuals or organizations for goods or services rendered and for taxes due to the City.

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

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as interfund loans receivable/payable. There was one outstanding interfund loan on December 31, 2016 totaling \$424,315 due from the General Fund to the Surface Water Management Fund. All other outstanding balances between funds are reported as due to/from other funds. For more information regarding interfund loans are disclosed in Note 12, Interfund Receivables, Payables and Transfers.

Any residual balances outstanding between governmental activities and business-type activities are reported in the government-wide financial statements as internal balances.

These accounts include amounts due to or from other governments for grants, entitlements, taxes, and charges for services.

5. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$4,999 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

Costs for additions or improvements to capital assets are capitalized when they increase the effectiveness or efficiency, or increase the life of the asset.

The costs for normal maintenance and repairs are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of the capital assets of business-type activities is

included as part of the capitalized value of the assets constructed to the extent that the interest expense exceeds the investment interest earnings on any proceeds restricted for capital purposes. The total interest expense incurred in the Surface Water Utility Fund during the current fiscal year is \$44,640. Of this amount, none was included as part of the cost of capital assets under construction since the construction projects were completed in prior years.

Property, plant, and equipment of the City is depreciated using the straight-line method over the following estimated useful lives:

Asset Class	Years
Buildings	20-30
Infrastructure	25-80
Other Improvements	2-50
Vehicles	5-10
Computer Equipment	3-5

See Note 4 *Capital Assets* for additional information.

6. 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.

7. Deferred Outflows

The City has adopted provisions of Governmental Accounting Standards Board Statement (GASBS) No. 63 *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position* and GASBS No. 65 *Items Previously Reported as Assets and Liabilities*. The objective of these statements is to enhance the usefulness of financial reporting, as described below.

In addition to assets, the statement of financial position reports a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position which applies to future period(s) and will not be recognized as an outflow of resources (expense/expenditure) until then. The City recognizes deferred outflows of resources relating to its pension plans.

See Note 6 *Pension Plans*, for additional information.

8. Compensated Absences

Compensated absences are absences for which employees will be paid, such as vacation leave or accrued compensatory time. Compensated absence liabilities are reported in the government-wide statements, as well as the proprietary funds.

Vacation leave, which may be accumulated up to 368 hours, is payable upon resignation, retirement or death.

Sick leave accrues at the rate of 8 hours per month and is only payable separation if the employee is eligible for retirement, as defined by the rules and regulations of the Washington State Public Employees Retirement System. In the event an employee qualifies for a sick leave cash-out, the employee is paid for 10% of his accrued but unused sick leave.

9. Other Accrued Liabilities

These accounts consist of accrued wages and accrued employee benefits.

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

11. Unearned Revenues

This account includes amounts recognized as receivables but not revenues in governmental funds. In these instances, the revenue recognition criteria have not been met, normally due to receivables not being collected within the "current period" as discussed in Note 1C. *Measurement Focus, Basis of Accounting, and Financial Statement Presentation*.

12. Deferred Inflows

In addition to liabilities, the statement of financial position reports a separate section for the deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to future period(s) and will not be recognized as an inflow of resources (revenues) until that time. Unavailable revenues from prepayments are reported and from property taxes are reported as deferred inflows on the governmental fund statements. Only the unavailable revenues from non-property tax sources are included in the government-wide statements. This amount is deferred and recognized as an inflow of resources in the period when the amounts become available. The City also recognizes deferred inflow of resources relating to its pension plans.

See Note 6 *Pension Plans*, for additional information.

13. Fund Balance Classifications

Effective January 1, 2011, the City adopted the provisions of GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions. The objective of GASB 54 is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be consistently applied and to clarify the existing government fund type definitions. The components for reporting the City's fund balances are non-spendable, restricted, committed, assigned and unassigned.

- A. Non-spendable fund balance cannot be spent because it is either not in a spendable form (such as inventory or prepaids) or it is legally or contractually required to remain intact.
- B. Restricted fund balance includes amounts where constraints have been imposed by external parties, including creditors, grantors, and laws and regulations of other governments.
- C. For committed fund balance the government's highest level of decision-making authority is the City Council and a formal action by ordinance, resolution or motion is required to be taken to establish, modify or rescind a fund balance commitment.
- D. For assigned fund balance the City Council assigns amounts to a specific purpose (for example - budgeted use of fund balance) by adopting an ordinance to establish or amend the City's budget.
- E. Unassigned fund balance is any remaining amount after accounting for A-D above.

For the classification of fund balances the government considers restricted amounts to have been spent when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available. The City's assumed spending order of fund balances is committed balances first, followed by assigned balances, then finally unassigned amounts.

14. Fund Balance Details

Fund balances in the governmental funds at December 31, 2016 were as follows:

Fund Balance Components	Fund	Details	Amount	Total
Nonspendable Fund Balance	General	Prepaid Expenses	\$ 158,906	\$ 180,983
	General Capital	Prepaid Expenses	3,768	
	Roads Capital	Prepaid Expenses	8,086	
	Other Governmental	Prepaid Expenses	10,223	
Restricted Fund Balance	General	Restricted for open space projects	97,067	4,035,973
	General Capital	Restricted for 2013 GO Bond projects	317,634	
	Other Governmental	Restricted for police use only (seizure funds)	1,356,274	
	Other Governmental	Restricted for Unlimited Tax 2006 GO Bond payments	4,295	
	Other Governmental	Restricted for Transportation	1,201,065	
	Roads Capital	Restricted for Transportation	1,059,638	
Committed Fund Balance	General	Cash flow reserve	3,000,000	9,203,497
	General	Revenue stabilization	5,150,777	
	General	Budget contingency	791,220	
	General	Insurance reserves	255,000	
	General	Imprest cash	6,500	
Assigned Fund Balance	General	Available fund balance	5,065,053	14,215,667
	General Capital	Available fund balance	2,686,255	
	Other Governmental	Available fund balance	1,649,698	
	Roads Capital	Available fund balance	4,814,662	
Unassigned Fund Balance	General	Remaining fund balance	4,003,102	4,003,102
Total Fund Balances			\$ 31,639,222	\$ 31,639,222

15. Minimum Fund Balances

The City's Reserve and Fund Balance Policies as adopted by motion of the City Council include the following provisions.

General Fund Operating Reserves

The City shall maintain a General Fund Operating Reserve to provide adequate cash flow, budget contingencies, and insurance reserves. The General Fund Operating Reserves will be determined as follows:

1. Cash Flow Reserve: The City shall maintain a cash flow reserve within the General Fund in an amount equal to \$3,000,000. The City will review annually the required cash flow reserve level that is necessary to meet the City's cash flow needs. If it is determined that \$3,000,000 is not adequate, the Finance Director shall propose an amendment to these policies.
2. Budget Contingency: The City shall maintain a budget contingency reserve within the General Fund equal to 2% of budgeted operating revenues.
3. Insurance Deductible Reserve: The City shall maintain an insurance reserve within the General Fund to be used for potential substantial events that cause damage to the City's fixed assets and/or infrastructure.

Equipment and Vehicle Replacement Reserves

The City will maintain fully funded reserves for the replacement of vehicles, computer equipment, and other equipment identified on the City's fixed asset listing. Contributions will be made through assessments to the using funds and maintained on a per asset basis.

City Street Fund Reserves

The City shall maintain an operating reserve within the City's Street Fund an amount equal to 20% of annually budgeted operating revenues.

Revenue Stabilization Fund Reserves

The City shall maintain a Revenue Stabilization Fund and shall accumulate a reserve equal to thirty percent (30%) of annual economically sensitive revenues within the City's operating budget to cover revenue shortfalls resulting from unexpected economic changes or recessionary periods.

Surface Water Utility Fund Reserves

The City shall maintain an operating reserve within the Surface Water Utility Fund of an amount equal to no less than 20% of budgeted operating revenues.

Note 2 - DEPOSITS AND INVESTMENTS

A. DEPOSITS

The City's deposits and certificates of deposit 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).

B. INVESTMENTS

Investments Measured at Amortized Cost

As of December 31, 2016, the City had the following investment at amortized cost:

Type of Investment	Total
State Investment Pool	\$ 9,896,477
OpusBank	7,030,858
Total Investment	<u>\$ 16,927,335</u>

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

At December 31, 2016, the City had the following investments measured at fair value:

Fair Value Measurements Using				
Investments by Fair Value Level	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Federal Agency Obligations	\$ 7,939,407	\$ 7,939,407		
Total Investments by Fair Value Level	\$ 7,939,407	\$ 7,939,407		

C. PORTFOLIO WEIGHTED AVERAGE MATURITY

As of December 31, 2016, the City's investments had the following portfolio weighted average maturity:

Investment Type	Value	Weighted Average Maturity (Years)
State Investment Pool	\$ 9,896,477	0.03
OpusBank	\$ 7,030,858	0.09
Federal Agency Obligations	\$ 7,939,407	0.54
Total Value	<u>\$ 24,866,742</u>	
Portfolio weighted average maturity		0.66

Note 3 - PROPERTY TAXES

The county treasurer acts as an agent to collect property taxes levied in the county for all taxing authorities.

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

Property taxes are recorded as receivable and revenue when levied. During the year, property tax revenues are recognized when cash is collected. The amount of taxes receivable at year-end that would be collected soon enough to be available to pay liabilities of the current period is immaterial. No allowance for uncollectible taxes is established because delinquent taxes are considered fully collectible. Prior year tax levies were recorded using the same principal, and delinquent taxes are evaluated annually.

The City may levy up to \$1.60 per \$1,000 of assessed valuation for general governmental services.

The City's regular levy for 2016 was \$1.33098 per \$1,000 on an assessed valuation of \$8,180,659,117 for a total regular levy of \$10,908,389.

The Washington State Constitution and Washington State law, RCW 84.55.010, limit the rate.

Special levies approved by the voters are not subject to the limitations listed above. In 2016, the City levied an additional \$0.210017 per \$1,000 for a total additional levy of \$1,699,938 towards repayment of the 2006 General Obligation bonds issued to purchase open space and construct park and trail improvements.

Note 4 - CAPITAL ASSETS AND DEPRECIATION

A. Capital asset activity for the year ended December 31, 2016 was as follows:

Governmental Activities	Beginning Balance 01/01/16	Increases	Decreases	Ending Balance 12/31/16
Capital Assets, not being depreciated:				
Land	132,658,125	1,468,640	-	134,126,765
Construction in Progress	592,300	828,428	(168,854)	1,251,874
Total Capital Assets, not being depreciated:	133,250,425	2,297,068	(168,854)	135,378,639
Capital Assets, being depreciated:				
Buildings	41,598,910	-	-	41,598,910
Improvements other than buildings	22,087,615	704,677	-	22,792,292
Machinery and equipment	4,351,612	344,851	(920,494)	3,775,969
Infrastructure	261,833,291	2,638,839	-	264,472,130
Total Capital Assets, being depreciated:	329,871,428	3,688,367	(920,494)	332,639,302
Less Accumulated Depreciation for:				
Buildings	(12,790,647)	(1,310,827)	-	(14,101,474)
Improvements other than buildings	(6,247,595)	(975,699)	-	(7,223,294)
Machinery and equipment	(2,900,717)	(271,419)	920,494	(2,251,643)
Infrastructure	(95,115,064)	(6,822,937)	-	(101,938,001)
Total Accumulated Depreciation	(117,054,023)	(9,380,882)	920,494	(125,514,411)
Total Capital Assets, being depreciated, net	212,817,405	(5,692,514)	-	207,124,891
Governmental Activities Capital Assets, net	346,067,830	(3,395,447)	(168,854)	342,503,530

Business-Type Activities	Beginning Balance 01/01/16	Increases	Decreases	Ending Balance 12/31/16
Capital Assets, not being depreciated:				
Land	23,632	-	-	23,632
Construction in Progress	866,947	470,596	-	1,337,543
Total Capital Assets, not being depreciated:	890,579	470,596	-	1,361,175
Capital Assets, being depreciated:				
Improvements other than buildings	399,929	-	-	399,929
Machinery and equipment	146,389	11,997	-	158,386
Infrastructure	21,584,452	38,439	-	21,622,891
Total Capital Assets, being depreciated:	22,130,770	50,436	-	22,181,206
Less Accumulated Depreciation for:				
Improvements other than buildings	-	(7,999)	-	(7,999)
Machinery and equipment	(109,166)	(11,305)	-	(120,471)
Infrastructure	(5,132,221)	(442,360)	-	(5,574,581)
Total Accumulated Depreciation	(5,241,387)	(461,664)	-	(5,703,051)
Total Capital Assets, being depreciated, net	16,889,383	(411,228)	-	16,478,155
Business-type activities Capital Assets, net	17,779,962	59,368	-	17,839,330

The City's infrastructure assets consist of roads, bridges, sidewalks, trails, storm drainage facilities, and signal lights. The City's infrastructure assets were valued and depreciated in accordance with GASB Statement No. 34.

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

Governmental Activities:	
General Government	1,142,291
Public Safety	60,691
Natural and Economic Environment	4,889
Transportation	6,762,677
Culture & Recreational	1,244,377
Capital assets held by the City's internal service funds are charged to the various functions based on their usage of the assets	165,956
Total Depreciation - Governmental Activities	9,380,882

Business-Type Activities	
Surface Water Utility	461,664
Total Depreciation - Business-Type Activities	461,664

Note 5 – OTHER RESTRICTED NET POSITION

The government-wide statement of net position report \$4,035,973 of restricted net position, of which \$4,035,973 is restricted by enabling legislation.

Note 6 - PENSION PLANS

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

Aggregate Pension Amounts – All Plans	
Pension liabilities	(\$10,551,565)
Deferred outflows of resources	2,131,027
Deferred inflows of resources	(207,881)
Pension expense/expenditures	\$1,090,316

State Sponsored Pension Plans

Substantially all of the City's 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

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

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

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

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

PERS Plan 2/3 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of five percent for each year of retirement before age 65. This option is available only

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

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

Contributions

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

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

The City's actual PERS plan contributions were \$558,303 to PERS Plan 1 and \$701,870 to PERS Plan 2/3 for the year ended December 31, 2016.

Actuarial Assumptions

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

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

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

- **Investment rate of return:** 7.5%

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

- The assumed valuation interest rate was lowered from 7.8% to 7.7%. Assumed administrative factors were updated.

Discount Rate

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

To determine that rate, an asset sufficiency test included an assumed 7.7 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. Consistent with the long-term expected rate of return, a 7.5 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue being made at contractually required rates (including PERS 2/3 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 percent was used to determine the total liability.

Long-Term Expected Rate of Return

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

Estimated Rates of Return by Asset Class

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

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

Sensitivity of the Net Pension Liability/(Asset)

The table below presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the City'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 percent) or 1-percentage point higher (8.5 percent) than the current rate.

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
PERS 1	\$5,911,843	\$4,902,434	\$4,033,776
PERS 2/3	10,401,066	5,649,131	(2,940,699)
TOTAL	\$16,312,909	\$10,551,565	\$1,093,077

Pension Plan Fiduciary Net Position

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

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

At June 30, 2016, the City reported its proportionate share of the net pension liabilities as follows:

	Liability (or Asset)
PERS 1	\$4,902,434
PERS 2/3	5,649,131
TOTAL	\$10,551,565

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

	Proportionate Share 6/30/15	Proportionate Share 6/30/16	Increase (Decrease) in Proportion
PERS 1	0.092547%	0.091285%	(0.001262)%
PERS 2/3	0.112877%	0.112199%	(0.000678)%

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

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

Pension Expense

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

	Pension Expense
PERS 1	\$199,964
PERS 2/3	890,352
TOTAL	\$1,090,316

Deferred Outflows of Resources and Deferred Inflows of Resources

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

PERS1	Deferred Outflows	Deferred Inflows
-------	-------------------	------------------

	of Resources	of Resources
Differences between expected and actual experience		
Net difference between projected and actual investment earnings on pension plan investments	\$123,436	
Changes of assumptions		
Changes in proportion and differences between contributions and proportionate share of contributions		
Contributions subsequent to the measurement date	309,360	
TOTAL	\$432,796	\$0

PERS2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$300,812	(\$186,487)
Net difference between projected and actual investment earnings on pension plan investments	691,291	
Changes of assumptions	58,388	
Changes in proportion and differences between contributions and proportionate share of contributions	234,351	(21,394)
Contributions subsequent to the measurement date	389,415	
TOTAL	\$1,674,257	(\$207,881)

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

Year ended December 31:	PERS1	PERS2/3
2017	(\$30,392)	\$94,863
2018	(30,392)	94,863
2019	113,362	560,943
2020	70,858	326,293
2021		
Thereafter	\$123,436	\$1,076,962

Note 7 – OTHER POST-EMPLOYMENT BENEFIT (OPEB) PLANS

Post-Employment Medical Benefits

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. The Trust provides medical benefits to certain eligible retired employees of the 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 the Trust at 1076 Franklin Street SE, Olympia, WA 98501-1346 or by calling (800) 562-8981.

The Trust provides that contribution requirements of participating employers and 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 contributed the following monthly amounts during 2016:

Health First-1000	Health First-2500	Group Health
\$734.37 for non-Medicare enrolled retiree coverage	\$641.21 for non-Medicare enrolled retiree coverage	\$1,218.17 for non-Medicare enrolled retiree coverage
\$740.78 for non-Medicare enrolled spouse coverage	\$645.87 for non-Medicare enrolled spouse coverage	\$1,182.67 for non-Medicare enrolled spouse coverage

Regence Medicare Advantage Plan	Group Health Medicare Advantage Plan
\$385.23 for Medicare enrolled retiree coverage	\$407.94 for Medicare enrolled retiree coverage
\$385.23 for Medicare enrolled spouse coverage	\$407.94 for Medicare enrolled spouse coverage

The City is not contractually required to contribute an assessed rate each year by the Trust for its retirees. The City's enrolled retirees pay 100% of the premiums.

Note 8 – CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS

A. CONSTRUCTION COMMITMENTS

As of December 31, 2016, the major construction project remains the Aurora Corridor Improvements – 165th to 205th project. This contract was awarded in December of 2013. At year-end, the City's commitments with its contractor were as follows:

Project	Spent to Date	Remaining Commitment
Aurora N. 165 th to 205th Corridor Improvements	\$ 27,297,502	\$ 2,197,076

This project has primarily been financed by federal and state grant programs.

B. OTHER SIGNIFICANT COMMITMENTS

The City requires architectural and engineering services to plan and manage its current and future construction projects. Below is a listing of the City's significant commitments for professional services for active and future projects:

Project	Spent to Date	Remaining Commitment
Police Station	\$ 1,890,667	\$ 140,641
North Maintenance Facility	250,708	73,472
Trail Along the Rail	19,028	83,803
25 th Ave NE Flood Reduction Improvements	327,069	965,568
Surface Water Master Plan	415,585	391,864

Note 9 – LEASES

During 2016, the City leased parking space from Walgreen's for City vehicles for a total cost of \$7,392. This operating lease allows the City or the lessor to cancel the lease. The City also entered into a five year lease with the Washington State Department of Social and Health Services to use approximately 2 acres of vacant land at the southeast section of the Fircrest Campus as an off leash dog area and associated parking. The annual cost of this lease is \$2,400.

The City purchased the Highland Park Center in 2006 to use for future City Hall expansion and assumed existing tenant leases. One tenant continues to occupy the remaining portion of the Highland Park Center with a lease through December 31, 2017. A second tenant vacated in 2016 and there is no plan to lease the vacated space. During 2016, the City collected \$54,098 in lease payments.

Note 10 - LONG-TERM DEBT

General obligation bonds were issued in 2006 and 2009 for general government activities only and are being repaid from a voter-approved "excess" property tax levy, real estate excise tax and lease savings. All principal and interest payments on these general obligation debts are recorded as expenditures in the City's debt service funds. The City issued unlimited tax general obligation bonds in 2006 to finance the acquisition of open space and for the construction of improvements to parks and recreation facilities. The City issued limited tax general obligation bonds of which a portion were direct pay taxable Build America Bonds in 2009 to finance the City's administration building.

The City issued limited tax general obligation bonds in 2013 to finance the purchase of a maintenance facility. These bonds will be repaid from governmental revenues, facility rental payments from the surface water utility fund, and property tax levies if other revenues are insufficient to repay the debt.

The City issued surface water utility revenue bond in 2016 for various surface water utility projects; the bonds will be repaid over 15 years and have fixed interest rate of 2.23%. These bonds will be repaid from surface water utility fees.

General obligation bonds currently outstanding are as follows:

Purpose	Maturity Range	Interest Rate	Original Amount	Outstanding 12/31/2016
Unlimited Tax General Obligation Bonds, 2016 Refunding- Parks and Open Space	2016 - 2021	1.02% - 1.72%	\$7,595,000	\$7,595,000
Limited Tax General Obligation Bonds, 2009 Series A - City Hall	2010 - 2017	3.00% - 4.00%	3,805,000	535,000
Limited Tax General Obligation Bonds, 2009 Series B (Taxable Build America Bonds-Direct Pay)- City Hall	2019 - 2039	4.69% - 6.40%	18,340,000	18,340,000
Limited Tax General Obligation Bonds, 2013 - Maintenance Facility	2014 - 2033	3.75%	3,565,000	3,210,000
Surface Water Utility Revenue Bonds, 2016 - Various Surface Water Utility Projects	2016 - 2031	2.23%	2,000,000	2,000,000
Total			\$35,305,000	\$31,680,000

The annual debt service requirements to maturity for general obligation bonds are as follows:

Year Ending December 31, 2016	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2017	\$ 2,276,000	\$ 1,347,663	\$ 113,628	\$ 44,724
2018	2,309,000	1,304,967	116,285	42,066
2019	2,345,000	1,280,704	118,879	39,473
2020	2,392,000	1,200,054	121,530	36,822
2021	1,883,000	1,168,548	124,240	34,112
2022 - 2026	4,280,000	5,145,974	664,012	127,744
2027 - 2031	5,170,000	4,284,695	741,426	50,331
2032 - 2039	9,025,000	3,788,423	-	-
Total	\$ 29,680,000	\$ 19,521,027	\$ 2,000,000	\$ 375,272

During calendar year 2001, the City entered into two long-term loan agreements with the Washington State Department of Community, Trade and Economic Development. The loans are to provide financing for two individual surface water capital improvement projects in the Surface Water Utility Fund, are administered through the Washington State Public Works Board, and are commonly referred to as Public Works Trust Fund Loans. These loans will be repaid from surface water utility fees.

Current loans outstanding at December 31, 2016 consisted of the following:

Issue Name	Amount Borrowed	Annual Installments	Final Maturity	Effective Rate	Outstanding 12/31/16
State of WA Public Works Trust Fund Loans:					
Third Avenue Drainage Improvements	\$ 1,959,500	\$ 114,213	2021	0.50%	\$ 571,066
Ronald Bog Sub Basin Improvements	3,852,725	212,262	2021	0.50%	1,061,307
Total	\$ 5,812,225	\$ 326,475			\$ 1,632,373

The annual debt service requirements to maturity for the Public Works Trust Fund Loan debt are as follows:

Year Ending December 31, 2016	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2017			326,475	8,162
2018			326,474	6,530
2019			326,475	4,897
2020			326,475	3,265
2021			326,474	1,632
Total	\$ -	\$ -	\$ 1,632,373	\$ 24,486

Note 11 – CHANGES IN LONG-TERM LIABILITIES

Compensated absences and net pension liabilities are also considered long-term liability and represent unpaid vacation, compensated time, eligible sick leave liability and the pension liability of the City. For the governmental activities, compensated absences and net pension liabilities are generally liquidated in the General Fund, Street Fund, General Capital Fund and Roads Capital Fund.

Other Long Term Liabilities	Beginning Balance 01/01/16	Additions	Reductions	Ending Balance 12/31/16
Compensated Absences				
Governmental Activity	\$ 791,040	\$ 1,375,058	\$ 1,220,979	\$ 945,119
Business-Type Activity	25,803	86,610	65,246	47,167
	816,843	1,461,668	1,286,225	992,287
Net Pension Liability ¹				
Governmental Activity	8,164,290	1,543,150		9,707,440
Business-Type Activity	709,938	134,187		844,125
	8,874,228	1,677,337		10,551,565
Total	\$ 9,691,071	\$ 3,139,005	\$ 1,286,225	\$ 11,543,852

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

	Beginning Balance 01/01/16	Additions	Reductions	Ending Balance 12/31/16	Due Within One Year
Governmental Activities:					
General Obligation Bonds	\$ 31,620,000	\$ 55,000	\$ 1,995,000	\$ 29,680,000	\$ 2,276,000
Compensated Absences	791,040	1,375,058	1,220,979	945,119	-
Net Pension Liability ¹	8,164,290	1,543,150	-	9,707,440	-
Governmental Activity long-term liabilities	40,575,330	2,973,208	3,215,979	40,332,559	2,276,000
Business-Type Activities:					
Surface Water Utility Bonds	-	2,000,000	-	2,000,000	113,628
Public Works Trust Fund Loans	1,958,848	-	326,475	1,632,373	326,475
Compensated Absences	25,803	86,610	65,246	47,167	-
Net Pension Liability ¹	709,938	134,187	-	844,125	-
Business-Type Activity long-term liabilities	\$ 2,694,589	\$ 2,220,797	\$ 391,721	\$ 4,523,665	\$ 440,103

Note 12- INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

A. Interfund Receivables/Payables

In 2014, the City Council approved an interfund loan from the Surface Water Maintenance Fund to the General Fund. The purpose of the loan was to have the Surface Maintenance Fund pay debt service on the North Maintenance Facility debt on behalf of the General Fund for several years. The maximum amount authorized is \$600,000. The loan is scheduled to mature on December 31, 2018.

Due From			
Due To			
	General Fund		Total
	Surface Water Management Fund	\$ 424,315	\$ 424,315
	Total	\$ 424,315	\$ 424,315

B. Interfund Transfers

The City's interfund transfers are primarily to support the operations of other funds and are recorded as "Operating Transfers" and classified with "Other Financing Sources or Uses." The principal purposes for interfund transfers include interfund subsidies and transfers into debt service and capital project funds.

Interfund transfers at December 31, 2016 were as follows:

Transfer From						
Transfer To	General Fund	General Capital	Roads Capital	Surface Water Utility	Other Governmental	Total
	General Fund	\$ -	\$ 23,977	\$ 64,767	\$ 642,343	\$ 289,674
	General Capital	180,000				1,771,131
	Roads Capital	1,001,227				1,001,227
	Other Governmental	1,920,677	664,546	212,871	12,971	2,811,065
	Total	\$ 3,101,903	\$ 688,523	\$ 277,638	\$ 642,343	\$ 2,073,776

Note 13 - RISK MANAGEMENT

A. Property and Liability

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

Utilizing Chapter 48.62 RCW (self-insurance regulation) 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 168 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, errors or omissions, stop gap, employment practices and employee benefits liability. Limits are \$4 million per occurrence in the self-insured layer, and \$16 million in limits above the self-insured layer is provided by reinsurance. Total limits are \$20 million per occurrence subject to aggregates and sublimits. The Board of Directors determines the limits and terms of coverage annually.

Insurance for property, automobile physical damage, fidelity, inland marine, and boiler and machinery coverage are purchased on a group basis. Various deductibles apply by type of coverage. Property coverage is 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, and claims and litigation administration. WCIA contracts for certain claims investigations, consultants for personnel and land use issues, insurance brokerage, actuarial, 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.

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 of WCIA.

B. Health and Welfare

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

An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The AWC Trust HCP was formed on January 1, 2014 when participating cities, towns, and non-city entities of the AWC Employee Benefit Trust in the State of Washington joined together by signing an Interlocal Governmental Agreement to jointly

self-insure certain health benefit plans and programs for participating employees, their covered dependents and other beneficiaries through a designated account within the Trust.

As of December 31, 2016, 258 cities/towns/non-city entities participate in the AWC Trust HCP.

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

Participating employers pay monthly premiums to the AWC Trust HCP. The AWC Trust HCP is responsible for payment of all covered claims. In 2016, the AWC Trust HCP purchased stop loss insurance for Regence/Asuris plans at an Individual Stop Loss (ISL) of \$1.5 million through Life Map, and Group Health ISL at \$750,000 through Sun Life. The aggregate policy is for 200% of expected medical claims.

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

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

The Board of Trustees has decision authority consistent with the Trust Agreement, Health Care Program policies, Chapter 48.62 RCW and Chapter 200-110-WAC.

The accounting records of the Trust HCP are maintained in accordance with methods prescribed by the State Auditor's office under the authority of Chapter 43.09 RCW. The Trust HCP also follows applicable accounting standards established by the Governmental Accounting Standards Board ("GASB"). Year-end financial reporting is done on an accrual basis and submitted to the Office of the State Auditor as required by Chapter 200-110 WAC. The audit report for the AWC Trust HCP is available from the Washington State Auditor's office.

C. Industrial Insurance

The City of Shoreline participates in the State of Washington's Employment Security Department's Industrial Insurance program. Payments are made quarterly.

D. Unemployment

The unemployment compensation insurance program is a federal-state system designed to provide partial wage loss compensation to workers during periods of temporary unemployment.

The City elected the reimbursement (self-insurance) method for claim payment and maintains the Unemployment internal service fund. The City reimburses Washington State's Employment Security Department on a quarterly basis for claims approved and paid.

Changes in claims liabilities for the two past years are as follows:

Year	Beginning Claim Liability	Additions	Reductions	Ending Claim Liability
2015	\$145	\$1,156	\$1,301	\$0
2016	\$0	\$3,180	\$881	\$0

Note 14 – CONTINGENCIES AND LITIGATION

Contingent Liabilities

The City has recorded in its financial statements all material liabilities. In the opinion of management, the City's participation in and coverage provided by the WCIA pool and insurance reserves are adequate to pay all known or pending claims.

The City of Shoreline has an interlocal agreement with King County for the provision of surface water billing services and collection of revenues. King County includes prior debt service for pre-incorporation and pre-annexations (1993, 1996 and 1999 Bond Issues) on the surface water management billing to City of Shoreline property owners, which is then remitted to the City. The County then bills the City for its share of the debt requirement based on the prior year surface water management billings. The 1993 bond issue was retired in the year 2002. The 1996 bond was retired in the year 2016. The 1999 bond issue will be retired in the year 2019.

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

Litigation

There were six cases pending at the end of 2016 and none of them implicated financial obligations.

Note 15 -PRIOR PERIOD ADJUSTMENTS

Internal Service Fund – Correction of an Accounting Error

Prior to 2016, the City consolidated a portion of the governmental internal service funds' net activity into its Business-Type Activities and the majority into its Governmental Activities. All of the activity should have been consolidated into Governmental Activities, in accordance with Generally Accepted Accounting Principles, as the majority of the services are provided to the City's governmental activities. In consequence of this correction, the beginning Net Position has been increased and reduced by \$232,785 in the Governmental Activities and Business-Type Activities in the City's Entity-Wide Statements, respectively. There is no impact at the fund level.

**REQUIRED SUPPLEMENTARY INFORMATION - State-Sponsored Plans
MCAG No. 1015**

**CITY OF SHORELINE
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
AND
SCHEDULE OF EMPLOYER CONTRIBUTIONS
PERS1
December 31, 2016**

CITY OF SHORELINE SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY PERS1 As of June 30, 2016 Last 10 Years³		
	2015	2016
City's Proportion of the Net Pension Liability (NPL) (Percentage)	0.092547%	0.091285%
City's Proportionate Share of the NPL (Amount)	\$4,841,069	\$4,902,434
City's Covered-Employee Payroll ¹	\$10,668,684	\$11,280,722
City's Proportionate Share of the NPL (Amount) as a Percentage of its Covered-Employee Payroll	45.38%	43.46%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	59.10%	57.03%

CITY OF SHORELINE SCHEDULE OF EMPLOYER CONTRIBUTIONS PERS1 December 31, 2016 Last 10 Years³		
	2015	2016
Statutorily or Contractually Required Contributions ²	\$490,337	\$558,303
Contributions in Relation to Required Contributions	\$490,337	\$558,303
Contributions Deficiency (Excess)	\$0	\$0
City's Covered-Employee Payroll ^{1, 4}	\$226,075	\$11,280,722
Contributions as a Percentage of Covered Payroll ⁴	216.89%	4.95%

Notes to the Schedules:

¹"Covered-employee payroll" includes employee compensation, as defined by statute, that the City reported to the Washington Department of Retirement Services (DRS). Employer-reported employee compensation is used to calculate retirement contributions due the the retirement system. The total salary of wages paid to employees eligible for retirement-system coverage may not be reportable to the DRS.

²The annual required contribution changes each year with the experience of the plans. Factors influencing the experience include changes in funding methods, assumptions, plan provisions, and economic and demographic changes and losses.

³These schedules will be built prospectively until they contain 10 years of data.

⁴2015 covered payroll has been restated in order to correct an error, as has the contributions as a percentage of covered payroll. The previously reported covered payroll has been increased by \$6,958, from \$219,117. In consequence, contributions as a percentage of covered payroll decreased by 6.89% from 223.78%.

REQUIRED SUPPLEMENTARY INFORMATION - State-Sponsored Plans (continued)
MCAG No. 1015

CITY OF SHORELINE
SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
AND
SCHEDULE OF EMPLOYER CONTRIBUTIONS
PERS2/3
December 31, 2016

CITY OF SHORELINE SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY PERS2/3 As of June 30, 2016 Last 10 Years³		
	2015	2016
City's Proportion of the Net Pension Liability (NPL) (Percentage) ⁶	0.112877%	0.112199%
City's Proportionate Share of the NPL (Amount)	\$4,033,160	\$5,649,131
City's Covered-Employee Payroll ^{1, 5}	\$10,668,684	\$11,280,722
City's Proportionate Share of the NPL (Amount) as a Percentage of its Covered-Employee Payroll ⁵	37.80%	50.08%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	89.20%	85.82%

CITY OF SHORELINE SCHEDULE OF EMPLOYER CONTRIBUTIONS PERS2/3 December 31, 2016 Last 10 Years³		
	2015	2016
Statutorily or Contractually Required Contributions ²	\$600,989	\$701,870
Contributions in Relation to Contractually Required Contributions	\$600,989	\$701,870
Contributions Deficiency (Excess)	\$0	\$0
City's Covered-Employee Payroll ^{1, 4}	\$10,668,684	\$11,280,722
Contributions as a Percentage of Covered Payroll ⁴	5.63%	6.22%

Notes to the Schedules:

¹"Covered-employee payroll" includes employee compensation, as defined by statute, that the City reported to the Washington Department of Retirement Services (DRS). Employer-reported employee compensation is used to calculate retirement contributions due the the retirement system. The total salary of wages paid to employees eligible for retirement-system coverage may not be reportable to the DRS.

²The annual required contribution changes each year with the experience of the plans. Factors influencing the experience include changes in funding methods, assumptions, plan provisions, and economic and demographic changes and losses.

³These schedules will be built prospectively until they contain 10 years of data.

⁴2015 covered payroll has been restated in order to correct an error, as has the contributions as a percentage of covered payroll. The previously reported covered payroll has been increased by \$428,791, from \$10,239,893. In consequence, contributions as a percentage of covered payroll decreased by 0.24% from 5.87%.

⁵2015 covered payroll has been restated in order to correct an error, as has the City's proportionate share of the NPL (Amount) as a percentage of its covered payroll. The previously reported covered payroll has been increased by \$645,383, from \$10,023,301. In consequence, the City's proportionate share of the NPL (Amount) as a percentage of its covered payroll decreased by 2.44% from 40.24%.

⁶2015 City's portion of NPL percentage has been restated in order to correct an error. The previously reported City's portion of NPL has been increased by 0.00007% from 0.112870%. The correct percentage was used in calculating the NPL reported in the 2015 financial statements.

City of Shoreline
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2016

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Note
				From Pass- Through Awards	From Direct Awards	Passed through to Subrecipients	
CDBG - Entitlement Grants Cluster							
Office Of Community Planning And Development, Department Of Housing And Urban Development (via King County Housing and Community Development)	Community Development Block Grants/Entitlement Grants	14.218	B-15-UC- 530001, 5EG98	61,810	-	61,810	2
Office Of Community Planning And Development, Department Of Housing And Urban Development (via King County Housing and Community Development)	Community Development Block Grants/Entitlement Grants	14.218	B-16-UC- 530001, 5EG98	88,084	-	57,137	2
Total CDBG - Entitlement Grants Cluster:				149,894	-	118,947	
Bureau Of Justice Assistance, Department Of Justice (via City of Seattle)	Edward Byrne Memorial Justice Assistance Grant Program	16.738	2014-DJ-BX- 1034	10,224	-	-	2
Bureau Of Justice Assistance, Department Of Justice	Edward Byrne Memorial Competitive Grant Program	16.751	2015-WY-BX- 0005	-	110,109	-	2
Highway Planning and Construction Cluster							
Federal Highway Administration (fhwa), Department Of Transportation (via WA State Dept. of Transportation)	Highway Planning and Construction	20.205	LA 7292/STPUL -CM-HSIP-009 (115)	1,823,657	-	-	2,4
Federal Highway Administration (fhwa), Department Of Transportation (via WA State Dept. of Transportation)	Highway Planning and Construction	20.205	LA 8223/HSIP- 0099(127)	5,322	-	-	2

The accompanying notes are an integral part of this schedule.

City of Shoreline
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2016

Federal Agency (Pass-Through Agency)	Expenditures					Passed through to Subrecipients	Note
	Federal Program	CFDA Number	Other Award Number	From Pass- Through Awards	From Direct Awards	Total	
Federal Highway Administration (fhwa), Department Of Transportation (via WA State Dept. of Transportation)	Highway Planning and Construction	20.205	LA 8608/STPUL -1611(002)	9,713	-	9,713	2
Federal Highway Administration (fhwa), Department Of Transportation (via WA State Dept. of Transportation)	Highway Planning and Construction	20.205	LA 8685/STPUL -1169(019)	42,992	-	42,992	2
Federal Highway Administration (fhwa), Department Of Transportation (via WA State Dept. of Transportation)	Highway Planning and Construction	20.205	LA 8856/SRTS HJ1169(020)	103,740	-	103,740	2
Federal Highway Administration (fhwa), Department Of Transportation (via WA State Dept. of Transportation)	Highway Planning and Construction	20.205	LA 8901/STPUL -0523(010)	12,714	-	12,714	2
Federal Highway Administration (fhwa), Department Of Transportation (via WA State Dept. of Transportation)	Highway Planning and Construction	20.205	LA 8990/HSIP- 0005(450)	128	-	128	2
Federal Highway Administration (fhwa), Department Of Transportation (via WA State Dept. of Transportation)	Highway Planning and Construction	20.205	LA 8981/HSIP- 2141(002)	2,872	-	2,872	2
Total Highway Planning and Construction Cluster:				2,001,138	-	2,001,138	
Federal Transit Cluster							
Federal Transit Administration (fta), Department Of Transportation (via King County Department of Transportation)	Federal Transit Capital Investment Grants	20.500	WA-04-0080	179,869	-	179,869	2, 4
Total Federal Transit Cluster:				179,869	-	179,869	
Highway Safety Cluster							

The accompanying notes are an integral part of this schedule.

City of Shoreline
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2016

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Passed through to Subrecipients	Note
				From Pass- Through Awards	From Direct Awards	Total		
National Highway Traffic Safety Administration (nhtsa), Department Of Transportation (via Washington Traffic Safety Commission)	State and Community Highway Safety	20.600	Safety Equipment	1,000	-	1,000	-	2
National Highway Traffic Safety Administration (nhtsa), Department Of Transportation (via Washington Traffic Safety Commission)	National Priority Safety Programs	20.616	WTSC Fed Emphasis Patrols	7,861	-	7,861	-	2
Total Highway Safety Cluster:				8,861	-	8,861	-	
Federal Emergency Management Agency (fema), Department Of Homeland Security (via WA State Military Department)	Emergency Management Performance Grants	97.042	E16-117	27,081	-	27,081	-	2
Federal Emergency Management Agency (fema), Department Of Homeland Security (via WA State Military Department)	Emergency Management Performance Grants	97.042	E17-154	11,257	-	11,257	-	2
Total CFDA 97.042:				38,338	-	38,338	-	
Total Federal Awards Expended:				2,388,324	110,109	2,498,433	118,947	

The accompanying notes are an integral part of this schedule.

CITY OF SHORELINE, WASHINGTON

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS For the Year Ended December 31, 2016

NOTE 1 - BASIS OF ACCOUNTING

This schedule is prepared on the same basis of accounting as the City of Shoreline's financial statements. The City of Shoreline uses the Generally Accepted Accounting Principles (GAAP) basis of accounting.

NOTE 2 - PROGRAM COSTS

The amounts shown as current year expenditures represent only the federal grant portion of the program costs. Entire program costs, including the City of Shoreline's portion, are more than shown. Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments, or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE 3 – INDIRECT COST RATE

The City has elected the 10 percent *de minimis* indirect cost rate allowed under the Uniform Guidance. However, this indirect cost rate was not applied to any federal grants during 2016.

NOTE 4 – PROGRAM COST RE-ALLOCATIONS

Cost incurred during 2015 but not previously reimbursed by grantors, were re-allocated to the following two grants during 2016: LA-7292/STPUL-CM-HSIP-0099(115) and WA-04-0080, increasing the reported costs in 2016, by \$164,825 and \$2,399, respectively. The reported expenditures on this schedule include these amounts.

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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

Contact information for the State Auditor's Office	
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