



Washington State Auditor's Office

Troy Kelley

Integrity • Respect • Independence

Financial Statements and Federal Single Audit Report

City of Shoreline

King County

For the period January 1, 2013 through December 31, 2013

Published September 18, 2014

Report No. 1012571





Washington State Auditor Troy Kelley

September 18, 2014

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 "Troy X. Kelley".

TROY KELLEY
STATE AUDITOR

Table of Contents

**City of Shoreline
King County
January 1, 2013 through December 31, 2013**

Federal Summary	4
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	6
Independent Auditor's Report On Compliance For Each Major Federal Program And On Internal Control Over Compliance In Accordance With OMB Circular A-133	8
Independent Auditor's Report On Financial Statements	11
Financial Section.....	14
About The State Auditor's Office.....	58

Federal Summary

City of Shoreline King County January 1, 2013 through December 31, 2013

The results of our audit of the City of Shoreline are summarized below in accordance with U.S. Office of Management and Budget Circular A-133.

FINANCIAL STATEMENTS

An unmodified opinion was issued on the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information.

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 each of its major federal programs.

We reported no findings that are required to be disclosed under section 510(a) of OMB Circular A-133.

Identification of Major Programs:

The following were major programs during the period under audit:

<u>CFDA No.</u>	<u>Program Title</u>
20.205	Highway Planning and Construction Cluster - Highway Planning and Construction
81.128	Energy Efficiency and Conservation Block Grant Program (EECBG)

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by OMB Circular A-133, was \$300,000.

The City qualified as a low-risk auditee under OMB Circular A-133.

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, 2013 through December 31, 2013**

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, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated August 20, 2014. As discussed in Note 3 to the financial statements, during the year ended December 31, 2013, the City implemented Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*.

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.

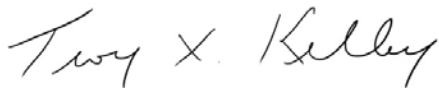
COMPLIANCE AND OTHER MATTERS

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.



TROY KELLEY
STATE AUDITOR

August 20, 2014

Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control over Compliance in Accordance with OMB Circular A-133

**City of Shoreline
King County
January 1, 2013 through December 31, 2013**

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) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2013. The City's major federal programs are identified in the accompanying Federal Summary.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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, 2013.

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 OMB Circular A-133, 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 OMB Circular A-133. 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 cursive script that reads "Troy X. Kelley".

TROY KELLEY
STATE AUDITOR

August 20, 2014

Independent Auditor's Report on Financial Statements

City of Shoreline King County January 1, 2013 through December 31, 2013

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, 2013, 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, 2013, 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.

Matters of Emphasis

As discussed in Note 3 to the financial statements, in 2013, the City adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 15 through 25 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.

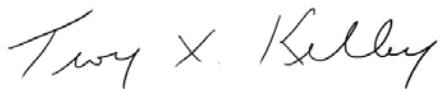
Supplementary and Other Information

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 U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. 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 August 20, 2014 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Troy X. Kelley". The signature is written in a cursive, flowing style.

TROY KELLEY
STATE AUDITOR

August 20, 2014

Financial Section

**City of Shoreline
King County
January 1, 2013 through December 31, 2013**

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2013

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2013

Statement of Activities – 2013

Balance Sheet – Governmental Funds – 2013

Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds – 2013

Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities – 2013

Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund – 2013

Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund Reconciliation – 2013

Statement of Net Position – Proprietary Funds – 2013

Statement of Revenues, Expenses and Changes in Net Position – Proprietary Funds – 2013

Statement of Cash Flows – Proprietary Funds – 2013

Statement of Net Position – Fiduciary Funds – 2013

Notes to Financial Statements – 2013

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Expenditures of Federal Awards – 2013

Notes to the Schedule of Expenditures of Federal Awards – 2013

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, 2013.

Financial Highlights

- The assets of the City Shoreline exceeded its liabilities at the end of the most recent fiscal year by \$363,614,824 (net position). Of this amount, \$23,969,470 (unrestricted net position-governmental activities) may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net position increased by \$944,459. Expenses from governmental activities exceeded governmental revenues by \$187,894 and business-type activity revenues exceeded expenditures by \$1.13 million in 2013.
- As of the close of 2013, the City of Shoreline's governmental funds reported combined ending fund balances of \$27,833,549 an increase of \$3,056,602 in comparison with the prior year. Approximately 52% or \$14.33 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 \$8,441,991 or 27% of the total general fund expenditures.
- The City of Shoreline's total debt increased by \$1,573,525 during the current fiscal year. This was attributed to an issuance of \$3,565,000 general obligation bonds and principal payment of \$1,665,000 on general obligation debt and the principal payment of \$326,475 on the Public Works Trust Fund Loan.

As of December 31, 2013, the City had total debt outstanding of \$37,976,798. 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 will be repaid over fifteen years and have fixed interest rates of between 3.55% and 4.09%. 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 LTD GO bonds will be repaid over 8 years and have fixed interest rates of between 3% and 4%. The 2009 Series B LTD GO 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 LTD 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%. They will be repaid by general property taxes. The Public Works Trust Fund loans are being 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).

Both of the government-wide financial statements distinguish 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 twelve 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 nine governmental funds are combined into a single, aggregated presentation. The Shoreline Transportation Benefit District is considered a blended component unit and is also included in the aggregated presentation.

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 for its management information systems 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 \$363,614,824 as of December 31, 2013.

By far the largest portion of the City's net position (91%) 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, 2013

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Current and other assets	\$ 34,180,872	\$ 31,133,892	\$ 3,697,583	\$ 3,810,740	\$ 37,878,454	\$ 34,944,632
Capital assets	351,358,005	352,557,755	17,017,807	16,123,222	368,375,812	368,680,977
Total Assets	385,538,877	383,691,647	20,715,390	19,933,962	406,254,267	403,625,609
Deferred Outflows of Resources	-	-	-	-	-	-
Total Assets and Deferred Outflows of Resources	385,538,877	383,691,647	20,715,390	19,933,962	406,254,267	403,625,609
Non-Current liabilities	36,127,700	34,407,283	2,656,004	3,003,222	38,783,704	37,410,505
Other liabilities	3,292,055	3,188,831	333,199	336,907	3,625,254	3,525,738
Total liabilities	39,419,755	37,596,114	2,989,203	3,340,129	42,408,958	40,936,243
Deferred Inflows of Resources	230,485	-	-	-	230,485	-
Net Position:						
Net Investment in Capital Assets	317,495,407	319,954,579	14,406,009	13,184,949	331,901,416	333,139,528
Restricted	4,423,760	2,740,000	-	-	4,423,760	2,740,000
Unrestricted	23,969,470	23,400,954	3,320,177	3,408,884	27,289,647	26,809,838
Total net position	\$ 345,888,637	\$ 346,095,533	\$ 17,726,187	\$ 16,593,833	\$ 363,614,824	\$ 362,689,366

The unrestricted net position of governmental activities, \$23,969,470, 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 increased by \$925,458 compared to 2012 after reporting a change in accounting principle of (\$19,001). Nearly all of the increase occurred in the restricted assets category which includes the unspent portion of debt proceeds for the acquisition and improvements of a maintenance facility (\$603,317) and the receipt of restricted federal criminal forfeitures (\$1,154,003).

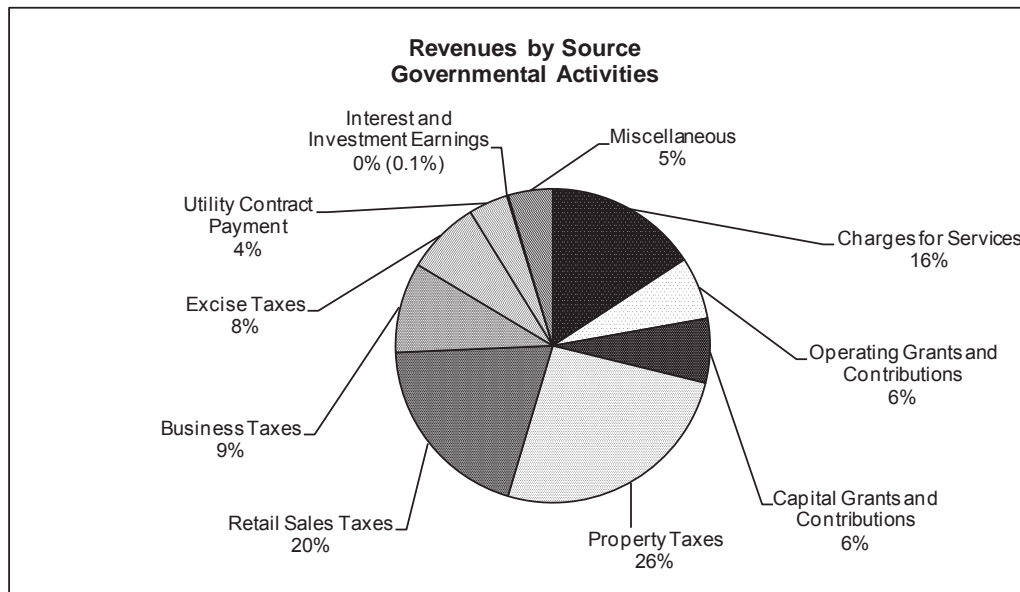
Governmental activities. Governmental activities decreased the City's net position by \$187,894, whereas the Business-type activities increased \$1,132,353. Key elements of the increase are as follows:

City of Shoreline's Changes in Net Position						
	Governmental activities		Business-type activities		Total	
	2013	2012	2013	2012	2013	2012
Revenues:						
Program Revenues:						
Charges for Services	\$ 6,745,508	\$ 6,817,881	\$ 3,329,556	\$ 3,211,007	\$ 10,075,064	\$ 10,028,888
Operating Grants and Contributions	2,782,052	2,757,176	113,430	114,464	2,895,483	2,871,640
Capital Grants and Contributions	2,866,264	7,909,530	570,845	208,577	3,437,109	8,118,107
General revenues:						
Property Taxes	11,141,187	11,805,566	-	-	11,141,187	11,805,566
Retail Taxes	8,519,312	8,032,806	-	-	8,519,312	8,032,806
Business Taxes	4,020,099	4,161,819	-	-	4,020,099	4,161,819
Excise Tax	3,349,476	3,494,009	-	-	3,349,476	3,494,009
Utility Contract Payment	1,754,748	1,734,957	-	-	1,754,748	1,734,957
Interest and Investment Earnings	60,187	86,706	16,679	33,970	76,866	120,676
Miscellaneous	1,977,507	1,216,127	-	-	1,977,507	1,216,127
Total Revenue	43,216,340	48,016,574	4,030,510	3,568,020	47,246,851	51,584,594
Expenses:						
General Government	9,383,494	8,774,728	-	-	9,383,494	8,774,728
Public Safety	13,992,627	11,790,832	-	-	13,992,627	11,790,832
Utilities	-	860,293	-	-	-	860,293
Transportation	9,724,447	7,472,984	-	-	9,724,447	7,472,984
Natural & Economic Environment	3,120,285	4,040,075	-	-	3,120,285	4,040,075
Culture and Recreation	6,010,661	5,544,520	-	-	6,010,661	5,544,520
Interest on Long-Term Debt	1,766,575	1,736,583	-	-	1,766,575	1,736,583
Surface Water	-	-	2,359,982	2,719,282	2,359,982	2,719,282
Total Expenses	43,998,090	40,220,015	2,359,982	2,719,282	46,358,072	42,939,297
Increase in net position before transfers and extraordinary items	(781,750)	7,796,559	1,670,528	848,738	888,778	8,645,297
Transfers	538,175	638,465	(538,175)	(638,465)	-	-
Insurance Recoveries	-	32,282	-	62,415	-	94,697
Proceeds from Sale of Capital Assets	16,369	-	-	-	16,369	-
Proceeds from Street Vacation	39,312	-	-	-	39,312	-
Increase in net position	(187,894)	8,467,306	1,132,353	272,688	944,459	8,739,994
Net position - January 1	346,095,533	337,681,004	16,593,833	16,321,145	362,689,366	354,002,149
Prior Period Adjustment	-	(52,777)	-	-	-	(52,777)
Change in Accounting Principle	(19,001)	-	-	-	(19,001)	-
Net position - December 31	\$ 345,888,637	\$ 346,095,533	\$ 17,726,187	\$ 16,593,833	\$ 363,614,824	\$ 362,689,366

Governmental revenues decreased by nearly \$4.8 million or 10% from 2012 as the result of a nearly \$5 million or 36% decrease in capital grants and contributions due to the completion of major segments of the Aurora Avenue Improvements project.

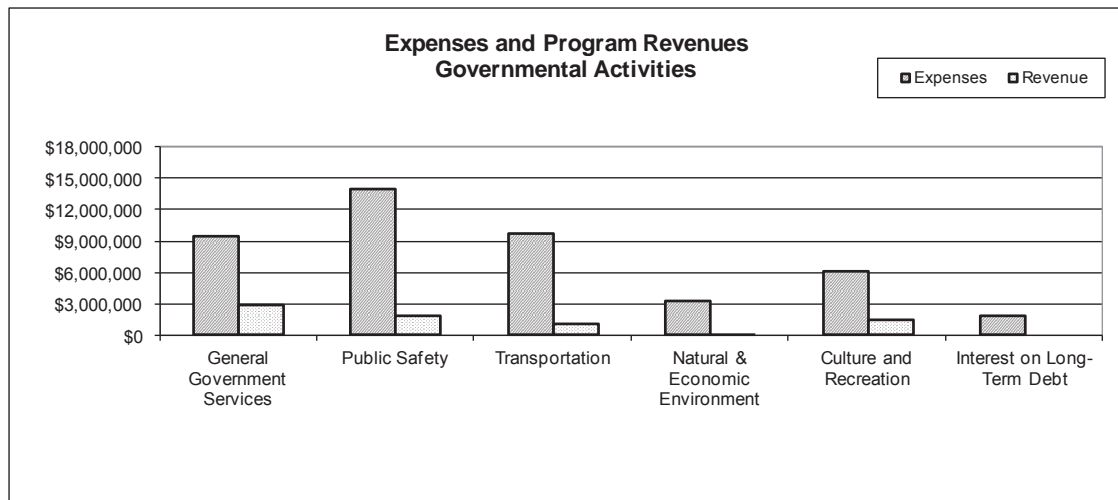
- Capital grants and contributions were down from 2012 by \$5,043,266 or nearly 64%. During 2012, the City recognized nearly \$7.8 million of federal and state grants for transportation projects mostly in support of the Aurora Avenue Improvements project. During 2013, the City received just over \$2.5 million in federal and state grants for transportation projects, again mostly for the Aurora Avenue Improvements project which completed a major phase early in the year.

- Property taxes decreased by \$664,379 or 5.63% due to a decline in assessed valuation caused by falling home prices in prior years. There is a one to two year lag in the reflection of the change in property values in assessed valuation used for property taxes. We have seen definite recovery in real estate sales prices which should begin to be reflected in the assessed valuation used for 2015 property taxes.
- Retail sales tax increased by \$486,506 or 6.06% as we have seen an improving economy resulting in strong growth in new car sales in the retail sector, growth in the construction of single-family residences and remodels, and several large unexpected construction projects.
- Business taxes decreased by \$141,720 or 3.41% due to two factors. Overall collections from utility taxes were down from 2012 by \$41,279 mostly from the natural gas and telephone categories. The other major change was the removal of gambling tax penalties from this category. During 2012, the City collected penalties totaling \$100,442.
- Excise taxes decreased by \$144,533 or 4.14%. This category includes gambling taxes, real estate excise taxes, and vehicle fees collected by the Transportation Benefit District. Gambling taxes decreased from 2012 by \$540,713. This reflects the reduction in past due taxes that have been paid during the past two years. When comparing current year taxes the City experienced a drop of \$182,155 from 2012. Real estate excise taxes increased by \$332,167 or 2.6% due to an increase in property sales values and sales volume.
- Interest and investment earnings decreased by \$26,519 or 30.58% from 2012 as a result of falling short term interest rates. There was also a slight increase in leasehold excise taxes and a slight decrease in taxes from amusement games.
- Miscellaneous revenue increased by \$761,380 or nearly 62.61% from 2012 primarily due to the receipt of \$1.2 million in federal treasury seizure forfeiture proceeds. The City received \$418,851 from this source in 2012.



Governmental expenses increased by \$3,778,075 or 9.39% over the previous year. General Government expenses increased by \$608,766 or 6.9%. Most of the increase is from a large legal judgment which required the use of \$438,555 of operational contingency and the payment of two years (2012 and 2013) of voter registration costs due to a change in billing by King County (\$97,582). Public Safety increased over 2012 by \$2,201,795 or 18.67% due to increased contract costs for police and jail services. Expenses in the Utilities category decreased from the prior year due to the reclassification of certain programs into the Natural and Economic Environment category. Transportation expenses increased by \$2,251,463 mostly due to depreciation expense which increased by \$1,657,152 over 2012. Culture and

Recreation increased by \$466,141 or 8.4%. An additional 0.50 FTE Parks Project Coordinator was added to the General Fund in 2013 (\$51,542), landscape maintenance costs increased by \$37,457, utility costs increased by \$60,451, and parks repair and maintenance costs increased by \$35,429. The remaining increase was primarily due to salary adjustments and inflationary increases in other operating and maintenance costs.



A change in accounting principle was reported on the Statement of Activities that affected governmental activities by \$19,001 which was the result of eliminating both unamortized premiums and unamortized issuance costs of general obligation bonds issued in 2006 and 2009 to implement the requirements of GASB 65. This adjustment resulted in a decrease to the City's net position.

Business-type activities. Business-type activities increased the City's net position by \$1,132,353. Key elements of this increase are as follows:

- Charges for services increased over 2012 by \$118,549 due to a Surface Water fee increase of 3%.
- Capital grants increased from \$208,577 to \$570,845 due to an increase in the grants from the state and King County for surface water capital improvements.
- Transfers to other funds decreased from 2012 by \$100,290, as the Surface Water Utility Fund provided a one-time transfer to the General Fund during 2012 for the purchase of new equipment shared by governmental and business type activities.
- Expenses decreased by \$359,300 or 13%, primarily due to the reduction of professional services. During 2012, consultants were used to complete a surface water rate study, a surface water infrastructure inventory assessment, and to develop a drainage basin plans.

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, 2013, the City's governmental funds reported combined ending fund balances of \$27,833,549, an increase of \$3,056,602 in comparison with the prior year. There are three primary reasons for this increase: 1) the fund balance of the City's General Fund increased by \$1,416,466 during 2013 as revenue exceeded projections and expenditures were lower than expected; 2) the issuance of general obligation bonds proceeds of \$3,565,000 for the purchase and improvements of a City maintenance facility of which only approximately \$3 million was used during 2013; and 3) the receipt of \$1.2 million in federal treasury seizure forfeiture proceeds.

Approximately 52% or \$14.33 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 are nearly \$9.1 million of committed fund balance and \$4.4 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, 2013, unassigned fund balance of the General Fund was \$7,278,788, while total fund balance reached \$17,615,893. 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 41% of the total fund balance and nearly 24% of the General Fund expenditures excluding transfers out.

The fund balance of the City's General Fund increased by \$1,416,466 during 2013. The City had actually budgeted a General Fund ending fund balance decrease of \$1,851,051 in 2013. The planned use of fund balance included one-time allocations for the following purposes:

- \$436,102 for carryovers from 2012
- \$642,208 for budgeted operational contingency
- \$255,000 for a budgeted insurance reserve.
- \$240,205 for one-time investments
- \$193,625 for 2013 election and voter registration costs
- \$70,000 to transfer to the General Capital Fund for open space acquisition
- \$13,909 to transfer to the Bond Fund to offset the loss of Build America Bonds subsidy

Actual results were \$3.27 million better than anticipated. Key factors in this change are as follows:

Overall General Fund revenues decreased by \$196,953 or 1% in 2013 compared to 2012. However, revenues were over budget by \$1,238,170. Factors making up the \$196,953 decrease include:

- Property taxes decreased by \$442,137 or nearly 4.4%.
- Retail sales tax increased by \$403,930 or 5.8%.
- Total permit and land use revenues of \$1,481,074 were \$30,179, or 2% less than in 2012.
- The City's card room gambling tax decreased by \$178,471 or 9.4%.

General Fund expenditures, excluding operating transfers-out, increased by \$1,816,140 or 6.3% from 2012. 2013 expenditures were \$2,030,444 below budget. The most significant areas for budget savings included:

- General Government which was \$1.2 million under budget. A large portion of the savings resulted from the City not using all of the budgeted operating or insurance contingencies (\$448,566). Savings also occurred in salary and benefit costs due to staff vacancies, facility maintenance costs (\$64,859), election costs (\$108,625) and a major software upgrade did not occur as planned (\$218,137).
- Public Safety costs were \$52,735 below budget primarily as a result of lower police contract costs due to savings in salaries and benefits costs.
- Transportation costs were \$146,866 below budget due to a staff vacancy and a delay in contracted services for a corridor study (\$23,243) and development of a traffic management center which will continue (\$21,114) into 2014.

- Natural and Economic Environment costs were \$380,186 below budget. In this category, funding will be re-appropriated in 2014 to fund planning for two new light rail stations (\$151,447) and grant funding in support of environmental services program activities (\$118,851). There were also salaries and benefits savings in this category due to staff vacancies.
- Culture and Recreation expenditures were \$243,470 below budget due to the cancellation of the landscaping contract for nearly three months, an unplanned pool closure for an emergency boiler replacement, and savings in supplies and overtime costs.

The General Capital Fund has a fund balance of \$3,053,637, which will be used for park and recreation capital improvements. The net increase in fund balance during the current year in the General Capital Fund was \$525,661. The primary reason for this increase is the issuance of general obligation bonds proceeds of \$3,565,000 for the purchase and improvements of a City maintenance facility of which only approximately \$3 million was used during 2013.

The Roads Capital Fund has a fund balance of \$3,062,432, all of which will be used for future transportation capital improvements. The net decrease in fund balance within the Roads Capital fund was \$12,170 during 2013.

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 \$17,680,538 representing growth over 2012 of \$1,086,704 or 7%. The net position available for general surface water operations at the end of 2013 amounted to \$3,274,529. 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 2013, 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 \$1,220,529 increase in appropriation between the original and final amended budget of the General Fund. Following are the main components of the change in appropriation:

- \$531,992 supplemental appropriation to fund projects initiated in 2012 that were not completed until 2013. Unexpended resources from 2012 resulted in a higher than anticipated ending 2012 fund balance, which was appropriated for these expenditures. The primary projects included: funding for the acquisition of Asset Management software and implementation services (\$218,041); continuation of upgrades to the City's financial software (\$54,976); environmental services program activities (\$68,772); summer police bike patrols (\$18,240); contract for ROW inspections for utility relocation (\$6,455); traffic services program activities (\$28,520); teen training (\$9,268); emergency management planning activities (\$35,720); and a transfer to the Roads Capital Fund to continue additional one-time support for the Sidewalks Priority Routes project (\$92,000).
- \$7,493 supplemental appropriation for traffic safety equipment funded by grants.
- \$10,249 supplemental appropriation for professional services to study the acquisition of Seattle Public Utilities Water.
- \$9,935 supplemental appropriation to purchase traffic radar units funded by a grant.
- \$124,088 supplemental appropriation to purchase solar trash and recycling compactors funded by a grant.
- \$193,625 supplemental appropriation for 2013 general election and voter registration costs.
- \$3,000 supplemental appropriation to purchase three automated external defibrillators funded by a grant.

- \$10,000 supplemental appropriation to fund the development of an Urban Forestry Strategic Plan funded by a grant.
- \$5,000 supplemental appropriation for an update to the Shoreline Master Program funded by a grant.
- \$61,235 supplemental appropriation for emergency management planning activities funded by a grant.
- \$95,850 supplemental appropriation for environmental services program activities funded by a grant.
- \$84,153 supplemental appropriation for right of way program services funded by increased right of way fee revenues.
- \$70,000 supplemental appropriation to increased the transfer out to the General Capital Fund to provide funding for an open space purchase funded by designated street vacation proceeds.
- \$13,909 supplemental appropriation to increased the transfer out to the debt service fund due to a reduction in the amount of Build America Bonds subsidy due to the continued sequestration.

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, 2013, totals \$368,375,812 net of accumulated depreciation. These assets include infrastructure, buildings, land, machinery and equipment, vehicles, road improvements, park facilities, and construction-in-progress. The total decrease in the City's investment in capital assets for the current fiscal year was \$305,164. This is net of annual depreciation totaling \$9,395,710.

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

Purchase of Maintenance Facility	2,908,043
Construction work in progress: Aurora Ave N 165th to 205th	2,262,143
Annual road surface maintenance	703,274
Construction work in progress: North Fork Thornton Creek LID Storm Drain	690,063
Right of way purchases for the Aurora Ave N 165th to 205th	455,629
Construction of curb ramps, sidewalks and gutters	306,188
Construction work in progress: Meridian Park Wetland	271,642
Purchase of new vehicles and other equipment	242,168
Ongoing major repairs and equipment replacements at various City parks	186,102
Construction work in progress to improve various parks within the city	182,450
Construction work in progress: Pump Station No. 25	138,273
Construction work in progress: Goheen Revetment Repair	100,400
Construction work in progress: Surface water at various locations within the city	73,232
Paramount Open Space Purchase	69,996
Donation -Outdoor Sculpture (Woodwave)	59,000
Construction work in progress: Aurora Avenue N. 145th -192nd Safety Improvements	57,984
Richmond Recreation Center Remodeling	57,012
Construction work in progress: Briarcrest Safe Routes to School	52,778
Traffic signal rehab and safety improvements	52,067

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Land	\$ 132,329,374	\$ 128,911,442	\$ 23,632	\$ 23,632	\$ 132,353,007	\$ 128,935,074
Buildings	31,415,929	32,736,801	-	-	31,415,929	32,736,801
Improvements other than buildings	16,235,038	16,098,503	-	-	16,235,038	16,098,503
Machinery and equipment	998,242	1,010,594	81,219	103,217	1,079,461	1,113,812
Infrastructure	164,119,815	167,246,343	15,601,741	15,399,259	179,721,556	182,645,602
Construction in progress	6,259,607	6,554,072	1,311,215	597,114	7,570,822	7,151,186
Total	<u>\$ 351,358,005</u>	<u>\$ 352,557,755</u>	<u>\$ 17,017,807</u>	<u>\$ 16,123,222</u>	<u>\$ 368,375,812</u>	<u>\$ 368,680,977</u>

Additional information on the City's capital assets can be found in Note 6 of the Financial Statements.

Long-term debt. As of December 31, 2013, the City had total debt outstanding of \$37,976,798. 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 will be repaid over fifteen years and have fixed interest rates of between 3.55% and 4.09%. They will be repaid by a voter approved property tax levy. The City issued general obligation bonds totaling \$22,145,000 in 2009 to be used to purchase City Hall. The 2009 Series A LTD GO bonds will be repaid over eight years and have fixed interest rates of between 3% and 4%. The 2009 Series B LTD 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 LTD 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%. The Public Works Trust Fund loans are being 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	
	2013	2012	2013	2012	2013	2012
General Obligation	\$ 35,365,000	\$33,465,000	\$ -	\$ -	\$ 35,365,000	\$33,465,000
Public Works Trust Fund Loans	-	-	2,611,798	2,938,272	2,611,798	2,938,272
Total	\$ 35,365,000	\$33,465,000	\$ 2,611,798	\$ 2,938,272	\$ 37,976,798	\$ 36,403,272

The City's total outstanding debt increased by \$1,573,525 during 2013. The factors in this change were the issuance of \$3,565,000 general obligation bonds and principal payment of \$1,665,000 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 \$483,929,235. The City has \$35,365,000 in outstanding general obligation debt as of December 31, 2013. Additional information regarding the City's long-term debt can be found in Note 11 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 2014 fiscal year.

- Employment is expected to increase by 2.5% between 2013 and 2015 throughout Puget Sound and King County.
- Unemployment is expected to drop 0.2% to 5.2% in King County between 2013 and 2014.
- Taxable retail sales are projected to grow by 6.0%.
- Housing permits are expected to rise by 15.2% throughout Puget Sound and 13.9% in King County.
- Personal income in King County is expected to increase by 2.5% annually through 2015.

Since the adoption of the 2014 budget, revenues have come in slightly 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 2013 the assigned and unassigned fund balance in the General Fund increased to \$8,441,991. The ending fund balance was greater than anticipated in the 2014 budget and will leave adequate reserves since the reserve level is approximately 12% of the 2014 General Fund budgeted expenditures excluding transfers out. 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 (\$663,459), and an Insurance Reserve of

\$255,000) equaling a total required reserve of \$3,918,459. The City currently maintains more than twice the required 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, 2013**

MCAG No. 1015

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and Cash Equivalents	\$ 1,400,298	\$ 50,834	\$ 1,451,133
Investments	29,079,238	3,055,277	32,134,515
Receivables:			
Taxes	312,657	-	312,657
Accounts	1,167,142	141,446	1,308,588
Interest	2,415	-	2,415
Internal Balances	23,156	(23,156)	-
Due from Other Governments	1,884,135	473,181	2,357,316
Prepayments	1,100	-	1,100
Notes/Contracts Receivable	310,731	-	310,731
Capital assets not being depreciated:			
Land	132,329,374	23,632	132,353,007
Construction in Progress	6,259,607	1,311,215	7,570,822
Capital Assets Net of Accumulated Depreciation:			
Buildings	31,415,929	-	31,415,929
Improvements Other than Buildings	16,235,038	-	16,235,038
Machinery and Equipment	998,242	81,219	1,079,461
Infrastructure	164,119,815	15,601,741	179,721,556
Total capital assets	351,358,005	17,017,807	368,375,812
Total assets	385,538,877	20,715,390	406,254,267
Deferred Outflows of Resources	-	-	-
Total Assets and Deferred Outflows of Resources	385,538,877	20,715,390	406,254,267
LIABILITIES			
Current Liabilities:			
Accounts Payable	1,277,996	231,028	1,509,025
Salaries, Taxes & Benefits Payable	294,415	26,118	320,533
Interest Payable	152,226	6,530	158,756
Retainage Payable	54,083	28,657	82,740
Deposits	18,679	-	18,679
Due to Other Governments	1,450,464	40,865	1,491,329
Unearned Revenues	44,192	-	44,192
Noncurrent Liabilities:			
Due Within One Year	1,820,000	326,475	2,146,475
Due in More Than One Year	34,307,700	2,329,530	36,637,230
Total liabilities	39,419,755	2,989,203	42,408,958
DEFERRED INFLOWS of RESOURCES			
Deferred inflow for grants	230,485	-	230,485
Total deferred inflows of resources	230,485	-	230,485
NET POSITION			
Net investment in Capital Assets	317,495,407	14,406,009	331,901,417
Net Position-Restricted			
Open Space	97,067	-	97,067
State Drug Enforcement Seizures	154,632	-	154,632
Fed Drug Enforcement Seizures	180,626	-	180,626
Fed Criminal Forfeitures	1,786,487	-	1,786,487
Debt Service	38,718	-	38,718
Capital Improvements	2,166,231	-	2,166,231
Net Position-Unrestricted	23,969,470	3,320,177	27,289,647
Total net position	\$ 345,888,637	\$ 17,726,187	\$ 363,614,824

The Accompanying Notes Are An Integral Part Of This Statement

**CITY OF SHORELINE
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2013**

MCAG No. 1015

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	\$ 9,383,494	\$ 2,738,567	\$ 860,143	\$ (122,586)	\$ (5,907,371)	\$ -	\$ (5,907,371)
Public Safety	13,992,627	1,674,660	403,436	-	(11,914,531)	-	(11,914,531)
Transportation	9,724,447	996,058	1,101,243	2,558,149	(5,068,997)	-	(5,068,997)
Natural & Economic Environment	3,120,285	941	411,540	-	(2,707,804)	-	(2,707,804)
Culture and Recreation	6,010,661	1,335,282	5,690	430,701	(4,238,988)	-	(4,238,988)
Interest on Long-Term Debt	1,766,575	-	-	-	(1,766,575)	-	(1,766,575)
Total Governmental Activities	43,998,090	6,745,508	2,782,052	2,866,264	(31,604,267)	-	(31,604,267)
Business-Type Activities							
Surface Water	2,359,982	3,329,556	113,430	570,845	-	1,653,849	1,653,849
Total Business-Type Activities	2,359,982	3,329,556	113,430	570,845	-	1,653,849	1,653,849
General Revenues:							
Taxes							
Property Taxes, Levied for General Purposes					9,642,749	-	9,642,749
Property Taxes, Levied for 2006 GO Bond					1,498,438	-	1,498,438
Retail Sales Taxes					8,519,312	-	8,519,312
Business Taxes					4,020,099	-	4,020,099
Excise Tax					3,349,476	-	3,349,476
Utility Contract Payment					1,754,748	-	1,754,748
Interest and Investment Earnings					60,187	16,679	76,866
Miscellaneous					1,977,507	-	1,977,507
Gain from Sale of Capital Assets					16,369	-	16,369
Proceed from Street Vacation					39,312	-	39,312
Transfers					538,175	(538,175)	-
Total General Revenues, Special items, and Transfers					31,416,373	(521,496)	30,894,877
Change in Net Position					(187,894)	1,132,353	944,459
Net Position - Beginning of Year					346,095,533	16,593,833	362,689,366
Change in Accounting Principle					(19,001)	-	(19,001)
Net Position - End of Year					\$ 345,888,637	\$ 17,726,187	\$ 363,614,824

The Accompanying Notes Are An Integral Part Of This Statement.

**CITY OF SHORELINE
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2013**

MCAG No. 1015

	General Fund	General Capital Fund	Roads Capital Fund	Other Governmental Funds	Total Governmental Funds
ASSETS and OUTFLOWS of RESOURCES					
Cash and cash equivalents	\$ 232,233	\$ 223,689	\$ 135,062	\$ 628,421	\$ 1,219,405
Investments	17,582,615	2,817,165	2,850,896	3,476,874	26,727,549
Receivables:					
Taxes	272,133	-	-	40,524	312,657
Accounts	1,158,366	-	120	8,655	1,167,142
Interest	1,549	-	-	18	1,567
Due from Other Funds	23,156	-	-	-	23,156
Due from Other Governments	1,137,763	133,282	554,962	58,127	1,884,135
Prepayments	1,100	-	-	-	1,100
Notes/Contracts Receivable	310,731	-	-	-	310,731
Total assets	20,719,646	3,174,136	3,541,040	4,212,620	31,647,442
Deferred Outflows of Resources	-	-	-	-	-
Total Assets and Deferred Outflows of Resources	\$ 20,719,646	\$ 3,174,136	\$ 3,541,040	\$ 4,212,620	\$ 31,647,442
LIABILITIES, DEFERRED INFLOWS of RESOURCES and FUND BALANCES:					
Liabilities:					
Accounts Payable	\$ 791,605	\$ 27,699	\$ 276,537	\$ 37,427	\$ 1,133,267
Salaries, Taxes & Benefits Payable	263,124	3,708	16,866	10,718	294,415
Retainage Payable	18,912	10,688	24,483	-	54,083
Unearned Revenues	603,656	-	-	40,524	644,180
Deposits	8,679	-	10,000	-	18,679
Due to Other Governments	1,264,425	1,272	150,723	22,364	1,438,784
Total Liabilities	2,950,400	43,366	478,608	111,034	3,583,408
Deferred Inflows of Resources					
Deferred inflow for grants	153,352	77,132	-	-	230,485
Fund Balances:					
Nonspendable Fund Balance	1,100	-	-	-	1,100
Restricted Fund Balance	97,067	1,732,887	10,000	2,583,807	4,423,760
Committed Fund Balance	9,075,736	-	-	-	9,075,736
Assigned Fund Balance	1,163,203	1,320,751	3,052,432	1,517,780	7,054,165
Unassigned Fund Balance	7,278,788	-	-	-	7,278,788
Total Fund Balances	17,615,894	3,053,637	3,062,432	4,101,587	27,833,549
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 20,719,646	\$ 3,174,136	\$ 3,541,040	\$ 4,212,620	
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.					350,851,375
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.					599,988
Long-term liabilities, including bonds payable, are not due and payable in the current period and accordingly are not reported as fund liabilities.					(36,279,926)
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.					2,883,651
Net Position of Governmental Activities					<u>\$ 345,888,637</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, 2013

MCAG No. 1015

	General Fund	General Capital	Roads Capital	Other Governmental Funds	Total Governmental Funds
REVENUES					
Taxes	\$ 24,077,661	\$ 817,221	\$ 817,221	\$ 2,270,814	\$ 27,982,917
Licenses & Permits	3,681,482	-	280	-	3,681,762
Intergovernmental	3,074,403	249,115	2,558,149	1,462,398	7,344,064
Charges for Services	1,851,738	-	703,274	-	2,555,012
Fines & Forfeits	507,490	-	-	1,244	508,734
Investment Earnings	30,612	3,935	6,890	8,029	49,466
Miscellaneous	632,063	24,460	2,236	1,318,703	1,977,462
Total Revenues	33,855,447	1,094,731	4,088,050	5,061,187	44,099,416
EXPENDITURES					
Current:					
General Government Services	8,259,586	46,933	-	-	8,306,520
Public Safety	13,893,434	-	-	31,666	13,925,100
Transportation	841,808	-	559,985	2,377,073	3,778,866
Natural & Economic Environment	3,073,064	-	-	-	3,073,064
Culture & Recreation	4,751,662	139,674	-	40,204	4,931,541
Debt Service:					
Principal	-	-	-	1,665,000	1,665,000
GO Bond Issuing Cost	-	24,292	-	-	24,292
Interest & Other Charges	-	-	-	1,699,370	1,699,370
Capital Expenditures:					
General Government	10,087	3,009,676	-	-	3,019,763
Public Safety	-	38,535	-	-	38,535
Culture & Recreational	-	463,584	-	161,326	624,911
Transportation	6,098	-	3,974,786	-	3,980,884
Total Expenditures	30,835,739	3,722,695	4,534,770	5,974,640	45,067,844
Excess (Deficiency) of Revenues over Expenditures	3,019,709	(2,627,964)	(446,721)	(913,452)	(968,428)
OTHER FINANCING SOURCES (USES)					
Proceeds from Street Vacation	39,312	-	-	-	39,312
General Obligation Bond Proceeds	-	3,565,000	-	-	3,565,000
Insurance Recoveries	43	-	-	-	43
Transfers In	946,045	288,535	492,239	2,395,264	4,122,084
Transfers Out	(2,588,643)	(699,910)	(57,689)	(355,166)	(3,701,409)
Total other financing sources and uses	(1,603,243)	3,153,624	434,550	2,040,099	4,025,030
SPECIAL ITEMS					
Net Change in Fund Balances	1,416,465	525,661	(12,170)	1,126,646	3,056,602
Fund balances - beginning	16,199,428	2,527,977	3,074,602	2,974,941	24,776,947
Fund balances - ending	\$ 17,615,894	\$ 3,053,637	\$ 3,062,432	\$ 4,101,587	\$ 27,833,549

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, 2013**

MCAG No. 1015

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

Net change in fund balances - total governmental funds	\$ 3,056,602
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 depreciation in the current period.	(1,107,864)
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.	(1,900,000)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds	(17,277)
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.	(116,116)
The net effect of converting deferred revenue of gambling tax to revenue.	(232,292)
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.	129,053
Change in net position of governmental activities	<u>\$ (187,894)</u>

The Accompanying Notes Are An Integral Part Of This Statement.

CITY OF SHORELINE, WASHINGTON
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND
FOR YEAR ENDED DECEMBER 31, 2013

MCAG No. 1015

REVENUES	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Taxes	\$ 23,189,432	\$ 23,189,432	\$ 24,077,661	\$ 888,229
Licenses & Permits	3,091,450	3,175,603	3,681,482	505,879
Intergovernmental	2,855,958	3,278,698	3,074,403	(204,295)
Charges for Services	1,766,600	1,766,600	1,851,738	85,138
Fines & Forfeits	629,000	629,000	507,490	(121,510)
Investment Earnings	26,500	26,500	30,612	4,112
Miscellaneous	551,444	551,444	632,063	80,619
Total revenues	32,110,384	32,617,277	33,855,447	1,238,170
EXPENDITURES				
General Government Services	9,078,985	9,482,956	8,259,586	(1,223,370)
Public Safety	13,808,806	13,946,169	13,893,434	(52,735)
Transportation	825,802	988,674	841,808	(146,866)
Natural & Economic Environment	3,154,903	3,453,249	3,073,064	(380,186)
Culture & Recreation	4,898,074	4,995,132	4,751,662	(243,470)
Capital Exps - General Government	-	-	10,087	10,087
Capital Exps - Culture and Recreation	-	-	6,098	6,098
Total expenditures	31,766,570	32,866,180	30,835,739	(2,030,442)
Excess of revenues over expenditures	343,814	(248,903)	3,019,709	3,268,612
OTHER FINANCING SOURCES (USES)				
Proceeds from Street Vacation	-	-	39,312	39,312
Insurance Recoveries	-	-	43	43
Transfers In	946,045	946,045	946,045	-
Transfers Out	(2,427,272)	(2,548,191)	(2,588,643)	(40,452)
Total other financing sources and uses	(1,481,227)	(1,602,146)	(1,603,243)	(1,097)
Net change in fund balances	(1,137,413)	(1,851,049)	1,416,465	3,267,515
Fund balances - beginning	16,199,428	16,199,428	16,199,428	-
Fund balances - ending	\$ 15,062,015	\$ 14,348,379	\$ 17,615,894	\$ 3,267,515

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, 2013

	Budgeted Amounts			
	Original	Final	Actual Amounts	Variance to Final Budget
REVENUES				
Investment Interest - General Fund, As Adopted	\$ 26,500	\$ 26,500	\$ 25,728	\$ (772)
Investment Interest - Revenue Stabilization Fund	-	-	3,112	3,112
Investment Interest - Property Tax Equalization Fund	-	-	1,771	1,771
Investment Interest - General Fund As Reported	<u>\$ 26,500</u>	<u>\$ 26,500</u>	<u>\$ 30,612</u>	<u>\$ 4,112</u>
FUND BALANCES - BEGINNING				
General Fund, As Adopted	\$ 9,864,643	\$ 9,864,643	\$ 9,864,643	\$ -
Revenue Stabilization Fund	5,147,665	5,147,665	5,147,665	-
Property Tax Equalization Fund	1,187,120	1,187,120	1,187,120	-
Beginning Fund Balances - General Fund, As Reported	<u>\$ 16,199,428</u>	<u>\$ 16,199,428</u>	<u>\$ 16,199,428</u>	<u>\$ -</u>
FUND BALANCES - ENDING				
General Fund, As Adopted	\$ 8,727,230	\$ 8,013,592	\$ 11,276,225	\$ 3,262,633
Revenue Stabilization Fund	5,147,665	5,147,665	5,150,777	3,112
Property Tax Equalization Fund	1,187,120	1,187,120	1,188,891	1,771
Ending Fund Balance - General Fund, As Reported	<u>\$ 15,062,015</u>	<u>\$ 14,348,377</u>	<u>\$ 17,615,894</u>	<u>\$ 3,267,517</u>

**CITY OF SHORELINE
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2013**

MCAG No. 1015

	Business-Type Activities - Enterprise Funds Surface Water Utility	Total Business- Type Activities	Governmental Activities Internal Service Funds
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 50,834	\$ 50,834	\$ 180,893
Investments	3,055,277	3,055,277	2,351,689
Receivables			
Accounts	95,797	95,797	-
Interest	-	-	848
Due from Other Governments	473,181	473,181	-
Prepayments	-	-	-
Total current assets	<u>3,675,090</u>	<u>3,675,090</u>	<u>2,533,430</u>
Noncurrent Assets:			
Capital assets not being depreciated:			
Land	23,632	23,632	-
Construction in Progress	1,311,215	1,311,215	-
Capital assets being depreciated:			
Machinery & Equipment	81,219	81,219	506,630
Infrastructure	15,601,741	15,601,741	-
Total capital assets (net)	<u>17,017,807</u>	<u>17,017,807</u>	<u>506,630</u>
Total noncurrent assets	<u>17,017,807</u>	<u>17,017,807</u>	<u>506,630</u>
TOTAL ASSETS	<u>20,692,897</u>	<u>20,692,897</u>	<u>3,040,060</u>
DEFERRED OUTFLOWS of RESOURCES			
TOTAL DEFERRED OUTFLOWS of RESOURCES	<u>-</u>	<u>-</u>	<u>-</u>
LIABILITIES			
Current Liabilities:			
Accounts Payable	231,028	231,028	99,081
Salaries, Taxes & Benefits Payable	26,118	26,118	-
Public Works Trust Fund Loan Payable	326,475	326,475	-
Interest Payable	6,530	6,530	-
Retainage Payable	28,657	28,657	-
Due to Other Funds	23,156	23,156	-
Due to Other Governments	40,865	40,865	11,680
Total current liabilities	<u>682,829</u>	<u>682,829</u>	<u>110,761</u>
Noncurrent Liabilities:			
Compensated Absences Payable	44,207	44,207	-
Public Works Trust Fund Loan Payable	2,285,323	2,285,323	-
Total noncurrent liabilities	<u>2,329,530</u>	<u>2,329,530</u>	<u>-</u>
TOTAL LIABILITIES	<u>3,012,359</u>	<u>3,012,359</u>	<u>110,761</u>
DEFERRED INFLOWS of RESOURCES			
TOTAL DEFERRED INFLOWS of RESOURCES	<u>-</u>	<u>-</u>	<u>-</u>
NET POSITION			
Net Investment in Capital Assets	14,406,009	14,406,009	506,630
Restricted for			
Unrestricted	3,274,529	3,274,529	2,422,669
TOTAL NET POSITION	<u>\$ 17,680,538</u>	<u>17,680,538</u>	<u>\$ 2,929,299</u>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds			
		45,648	
Net Position of business-type activities		<u>\$ 17,726,187</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, 2013

MCAG No. 1015

	Business-type Activities Enterprise Funds	Total Business-type Activities	Governmental Activities Internal Service Funds
	Surface Water Utility		
OPERATING REVENUES:			
Charges for Services	\$ 3,329,556	\$ 3,329,556	\$ 459,139
Total operating revenues	<u>3,329,556</u>	<u>3,329,556</u>	<u>459,139</u>
OPERATING EXPENSES:			
General Operations	1,980,617	1,980,617	275,413
Depreciation	411,138	411,138	153,615
Total operating expenses	<u>2,391,755</u>	<u>2,391,755</u>	<u>429,028</u>
Operating income	<u>937,801</u>	<u>937,801</u>	<u>30,111</u>
NONOPERATING REVENUES (EXPENSES)			
Interest Income	16,678	16,678	10,721
Interest Expense	(13,875)	(13,875)	-
Intergovernmental	113,430	113,430	-
Total Nonoperating revenues (expenses)	<u>116,233</u>	<u>116,233</u>	<u>10,721</u>
Income before contributions and transfers	1,054,034	1,054,034	40,832
Capital Contributions - Other Governments	570,845	570,845	-
Transfers from other funds	-	-	117,500
Transfers to other funds	(538,175)	(538,175)	-
Proceeds from Sale of Capital Assets	-	-	16,369
Change In Net Position	<u>1,086,704</u>	<u>1,086,704</u>	<u>174,701</u>
Total unassigned net position - beginning	<u>16,593,834</u>		<u>2,754,598</u>
Total unassigned net position - ending	<u>\$ 17,680,538</u>		<u>\$ 2,929,299</u>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds		45,648	
Change in net position of business-type activities		<u>\$ 1,132,352</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, 2013**

MCAG No. 1015

	Business-type Activities Enterprise Funds	Governmental Activities Internal Service Funds
	Surface Water	
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 2,978,291	\$ -
Receipts from interfund services provided	-	459,139
Payments to suppliers	(812,884)	(321,460)
Payments to employees	(1,053,855)	-
Payments for interfund services used	(114,357)	-
Net cash provided by operating activities	<u>997,195</u>	<u>137,679</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Cash operating grants received from other government	113,430	-
Operating subsidies and transfer to other funds	(538,175)	117,500
Net cash provided (used) by noncapital activities	<u>(424,745)</u>	<u>117,500</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(1,305,722)	(61,729)
Principal paid on capital debt	(326,475)	-
Interest paid on capital debt	(14,691)	-
Capital grants received from other government	570,845	-
Proceeds from sale of capital assets	-	16,369
Net cash provided (used) by capital and related financing activities	<u>(1,076,044)</u>	<u>(45,360)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Receipts of interest and dividends	16,678	4,201
Proceeds from the sales and maturities of investments	524,349	(381,820)
Net cash provided by investing activities	<u>541,027</u>	<u>(377,619)</u>
 Net increase in cash and cash equivalents	 37,434	 (167,800)
Cash and cash equivalents, January 1	<u>13,401</u>	<u>348,693</u>
Cash and cash equivalents, December 31	<u>\$ 50,834</u>	<u>\$ 180,893</u>
 Reconciliation of operating income to net cash provided (used) by operating activities:		
Operating Income (Loss)	<u>\$ 937,801</u>	<u>\$ 30,111</u>
Adjustments to Reconcile Operating Income (Loss)		
Net Cash Provided By Operating Activities:		
Depreciation expense	411,138	153,615
Changes in Assets and Liabilities		
(Increase) Decrease in accounts receivable	(18,701)	-
(Increase) Decrease in intergovernmental receivables	(332,564)	-
Increase (Decrease) in accounts payable	(42,021)	(42,181)
Increase (Decrease) in wages payable	6,651	-
Increase (Decrease) in retainage payable	10,189	-
Increase (Decrease) in compensated absences payable	(20,742)	-
Increase (Decrease) in interfunds payables	23,156	-
Increase (Decrease) in intergovernmental payables	22,288	(3,865)
Total adjustments	<u>59,394</u>	<u>107,568</u>
Net cash provided by operating activities	<u>\$ 997,195</u>	<u>\$ 137,679</u>
 Noncash investing, capital, and financing activities:		
Increase (Decrease) in fair value of investments	\$ -	\$ 5,774

The Accompanying Notes are an Integral Part of this Statement.

**CITY OF SHORELINE, WASHINGTON
STATEMENT OF NET POSITION
FIDUCIARY FUNDS
DECEMBER 31, 2013**

MCAG No. 1015

	<u>AGENCY FUND TOTAL</u>
ASSETS	
Current Assets:	
Cash and cash equivalents	\$ 287,020
Due from Other Governments	10
Total current assets	<u>287,029</u>
TOTAL ASSETS	<u>287,029</u>
DEFERRED OUTFLOWS of RESOURCES	
TOTAL DEFERRED OUTFLOWS of RESOURCES	<u>-</u>
LIABILITIES	
Current Liabilities:	
Deposits	33,875
Due to Other Governments	2,145
Custodial Accounts	<u>251,009</u>
Total current liabilities	<u>287,029</u>
TOTAL LIABILITIES	<u>287,029</u>
DEFERRED INFLOWS of RESOURCES	
TOTAL DEFERRED INFLOWS of RESOURCES	<u>-</u>
NET POSITION	
TOTAL NET POSITION	<u>-</u>

The Accompanying Notes Are An Integral Part Of This Statement.

City of Shoreline

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 policy body, 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.

As required by generally accepted accounting principles the financial statements present the City of Shoreline, the primary government, and its component unit, the Shoreline Transportation Benefit District (Shoreline TBD). The Shoreline TBD is included in the City of Shoreline reporting entity because of the significance of its operational and financial relationship with the City.

The Shoreline TBD was formed by the Shoreline City Council on June 22, 2009. The Shoreline City Council serves as the board of directors of the Shoreline TBD, with the City's Mayor serving as the Chairman of the TBD Board of Directors. The City's City Manager serves as the TBD's Executive Director and the City's Administrative Services Director serves as the TBD's Treasurer. The Shoreline TBD Board of Directors authorized levying a \$20 vehicle license fee for Shoreline residents effective February 1, 2010, on July 13, 2009. The proceeds of the \$20 vehicle license fee will be applied to the City's pavement management program.

Although the Shoreline TBD is legally separate from the City of Shoreline, the TBD is reported as part of the primary government because its sole purpose is to finance the City's pavement management program. The Shoreline TBD is reported as a blended component unit.

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 nonfiduciary activities of the City and the Shoreline TBD. 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.

City of Shoreline

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.

Property taxes, licenses, 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. 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

City of Shoreline

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 nonoperating 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. Scope of Budget

Annual appropriated budgets are adopted for the general, special revenue and proprietary funds on the modified accrual basis of accounting and constitute the legal authority for expenditures. Budgets for debt service and capital project funds are adopted at the level of the individual debt issue or project and for fiscal periods that correspond to the lives of the debt issues or projects. The appropriate annual portion of the project length budget is integrated into fund ledgers to facilitate internal managerial control.

Appropriations for general and special revenue funds lapse at year-end.

City of Shoreline

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, LIABILITIES, AND EQUITIES

1. Cash and Cash Equivalents

It is the City's policy to invest all temporary cash surpluses. At December 31, 2013, the treasurer was holding \$1,451,133 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 2013 were approximately \$1,771,581.

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 4 – Deposits and Investments)

3. Receivables

Taxes receivable consist of property tax, surface water utility tax and related interest and penalties (see Property Tax Note No. 5). Accrued interest receivable consists of amounts earned on investments 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 were no outstanding interfund loans on December 31, 2013. All other outstanding balances between funds are reported as due to/from other funds. 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.

City of Shoreline

5. Capital Assets (See Note 6 –Capital Assets)

Capital assets, which include property, 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 estimated fair market value at the date of donation.

Costs for additions or improvements to capital assets are capitalized when they increase the effectiveness or efficiency 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 \$13,875. 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
Vehicles	5-10
Computer Equipment	3-5

6. Deferred Outflow/Inflows of Resources

The city has recognized a total of \$230,485 of deferred inflow for grants which is displayed on the Statement of Net Position. The City had no deferred outflows of resources as of December 31, 2013.

7. Compensated Absences

Compensated absences are absences for which employees will be paid, such as vacation leave or accrued compensatory time. All vacation is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. Compensated absences liabilities are reported in the government-wide statements.

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 not payable upon resignation or death. Upon retirement as defined by the rules and regulations of the Washington State Public Employees Retirement System, an employee shall be paid for 10% of their accrued but unused sick leave.

8. Other Accrued Liabilities

These accounts consist of accrued wages and accrued employee benefits.

City of Shoreline

9. Long-Term Debt (See Note 11 - Long Term Debt)

10. Unearned Revenues

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

11. Fund Balance Classification

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 nonspendable, restricted, committed, assigned and unassigned.

- A. Nonspendable 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.

12. Fund Balance Details

Fund balances in the governmental funds at December 31, 2013 were as follows:

Fund Balance Components	Fund	Details	Amount	Total
Nonspendable Fund Balance	General	Prepaid Expenses	1,100	\$ 1,100
Restricted Fund Balance	General Capital	Restricted for 2006 & 2013 GO Bond projects	1,732,887	4,423,760
	Other Governmental	Restricted for police use only (seizure funds)	2,121,745	
	Other Governmental	Restricted for Unlimited Tax 2006 GO Bond payments	38,718	
	Other Governmental	Restricted for Transportation	423,344	
	General	Restricted for open space projects	97,067	
Committed Fund Balance	Roads Capital	Restricted for Transportation	10,000	9,075,736
	General	Cash flow reserve	3,000,000	
	General	Revenue stabilization	5,150,777	
	General	Budgeted contingency	663,459	
	General	Insurance reserves	255,000	
Assigned Fund Balance	General	Petty cash	6,500	
	Roads Capital	Available fund balance	3,052,432	7,054,165
	Other Governmental	Available fund balance	1,517,780	
	General	Available fund balance	1,163,203	
Unassigned Fund Balance	General Capital	Available fund balance	1,320,751	
	General	Remaining fund balance	7,278,788	7,278,788
Total Fund Balances				27,833,549

City of Shoreline

13. Minimum Fund Balance

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

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

Surface Water Utility Fund

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.

F. OTHER

Stabilization Arrangements

The City's Reserve and Fund Balance Policies as adopted by motion by the City Council include the following provision. *"The City will establish 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."*

Note 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

There have been no material violations of finance-related legal or contractual provisions.

Note 3 - ACCOUNTING CHANGES

A. Change in Accounting Principle

GASB 65, which became effective for fiscal years beginning after December 15, 2012, requires that both premiums and issuance costs of general obligation bonds to be recognized in the year of issuance of the debt. A change in accounting principle of \$19,001 affecting governmental activities has been reported on the Statement of Activities. This is the result of eliminating both unamortized premiums and unamortized issuance costs of general obligation bonds issued in 2006 and 2009. This adjustment resulted in a decrease to the City's net position.

City of Shoreline

Note 4 - DEPOSITS AND INVESTMENTS

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).

INVESTMENTS

As of December 31, 2013, the City had the following investments:

Investment Type	Fair Value	Weighted Average Maturity (Years)
State Investment Pool	\$ 29,136,087	0.14
U.S. Treasuries	\$ 2,998,428	0.25
Total Fair Value	<u>\$ 32,134,515</u>	
Portfolio weighted average maturity		0.39

Note 5 - 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 2013 was \$1.60 per \$1,000 on an assessed valuation of \$6,052,253,379 for a total regular levy of \$9,683,566.

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 2013, the City levied an additional \$0.2533 per \$1,000 for a total additional levy of \$1,505,024 towards repayment of the 2006 General Obligation bonds issued to purchase open space and construct park and trail improvements.

City of Shoreline

Note 6 – CAPITAL ASSETS AND DEPRECIATION

A. Capital assets activity for the year ended December 31, 2013 was as follows:

Governmental Activities	Beginning Balance 01/01/13	Increases	Decreases	Ending Balance 12/31/13
Capital Assets, not being depreciated:				
Land	128,911,442	3,417,933	-	132,329,374
Construction in Progress	6,554,072	1,960,991	(2,255,456)	6,259,607
Total Capital Assets, not being depreciated:	135,465,514	5,378,924	(2,255,456)	138,588,982
Capital Assets, being depreciated:				
Buildings	41,564,830	-	-	41,564,830
Improvements other than buildings	19,826,589	948,892	-	20,775,482
Machinery and equipment	3,537,315	243,268	(65,483)	3,715,100
Infrastructure	245,902,413	3,469,193	-	249,371,606
Total Capital Assets, being depreciated:	310,831,147	4,661,354	(65,483)	315,427,018
Less Accumulated Depreciation for:				
Buildings	(8,828,029)	(1,320,873)	-	(10,148,902)
Improvements other than buildings	(3,728,086)	(812,358)	-	(4,540,444)
Machinery and equipment	(2,526,720)	(255,621)	65,483	(2,716,857)
Infrastructure	(78,656,070)	(6,595,720)	-	(85,251,791)
Total accumulated depreciation	(93,738,905)	(8,984,571)	65,483	(102,657,993)
Total capital assets, being depreciated, net	217,092,242	(4,323,218)	-	212,769,024
Governmental Activities capital assets, net	352,557,756	1,055,706	(2,255,456)	351,358,006

Business-Type Activities	Beginning Balance 01/01/13	Increases	Decreases	Ending Balance 12/31/13
Capital Assets, not being depreciated:				
Land	23,632	-	-	23,632
Construction in Progress	597,114	1,135,337	(421,236)	1,311,215
Total Capital Assets, not being depreciated:	620,746	1,135,337	(421,236)	1,334,847
Capital Assets, being depreciated:				
Machinery and equipment	222,140	-	-	222,140
Infrastructure	19,296,732	591,622	-	19,888,354
Total Capital Assets, being depreciated:	19,518,872	591,622	-	20,110,494
Less Accumulated Depreciation for:				
Machinery and equipment	(118,923)	(21,998)	-	(140,921)
Infrastructure	(3,897,473)	(389,140)	-	(4,286,613)
Total accumulated depreciation	(4,016,395)	(411,138)	-	(4,427,534)
Total capital assets, being depreciated, net	15,502,477	180,483	-	15,682,960
Business-type activities capital assets, net	16,123,223	1,315,820	(421,236)	17,017,807

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 pursuant to GASB Statement 34.

City of Shoreline

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

Governmental Activities:	
General Government	1,114,701
Public Safety	67,403
Natural and Economic Environment	7,170
Transportation	6,581,512
Culture & Recreational	1,060,171
Capital assets held by the City's internal service funds are charged to the various functions based on their usage of the assets	153,615
Total Depreciation - Governmental Activities	8,984,571

Business-Type Activities	
Surface Water Utility	411,138
Total Depreciation - Business-Type Activities	411,138

Note 7 – OTHER RESTRICTED ASSETS

The government-wide statement of net position report \$4,423,760 of restricted net position, of which \$4,423,760 is restricted by enabling legislation.

Note 8 - PENSION PLANS

A. Substantially all City of Shoreline 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 retirement plans. The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to: Department of Retirement Systems, Communications Unit, P.O. Box 48380, Olympia, WA 98504-8380; or it may be downloaded from the DRS website at www.drs.wa.gov. The following disclosures are made pursuant to GASB Statements 27, *Accounting for Pensions by State and Local Government Employers* and 50, *Pension Disclosures, an Amendment of GASB Statements 25 and 27*.

Public Employees' Retirement System (PERS) Plans 1, 2, and 3

Plan Description

The Legislature established PERS in 1947. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts; employees of legislative committees; employees of district and municipal courts; and employees of local governments. Membership also includes higher education employees not participating in higher education retirement programs. Approximately 49 percent of PERS salaries are accounted for by state employment. PERS retirement benefit provisions are established in Chapters 41.34 and 41.40 RCW and may be amended only by the State Legislature.

PERS is a cost-sharing multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a defined benefit plan with a defined contribution component.

PERS members who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 and by either, February 28, 2002 for state and higher education employees, or August 31, 2002 for local government employees, are Plan 2 members unless they exercised an option to transfer their membership to Plan 3. PERS members joining the system on or after March 1, 2002 for state and higher education employees, or September 1, 2002 for local government employees have the irrevocable option of choosing membership in either PERS Plan 2

City of Shoreline

or Plan 3. The option must be exercised within 90 days of employment. Employees who fail to choose within 90 days default to Plan 3.

PERS is comprised of and reported as three separate plans for accounting purposes: Plan 1, Plan 2/3, and Plan 3. Plan 1 accounts for the defined benefits of Plan 1 members. Plan 2/3 accounts for the defined benefits of Plan 2 members, and the defined benefit portion of benefits for Plan 3 members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members. Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries, as defined by the terms of the plan. Therefore, Plan 2/3 is considered to be a single plan for accounting purposes.

PERS Plan 1 and Plan 2 retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the PERS Plan 1 and Plan 2 defined benefit plans accrue interest at a rate specified by the Director of DRS. During DRS' Fiscal Year 2013, the rate was five and one-half percent compounded quarterly. Members in PERS Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest thereon, in lieu of any retirement benefit, upon separation from PERS-covered employment.

PERS Plan 1 members are vested after the completion of five years of eligible service.

PERS Plan 1 members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with 25 years of service, or at age 60 with at least 5 years of service. Plan 1 members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits.

The monthly benefit is 2 percent of the average final compensation (AFC) per year of service, but the benefit may not exceed 60 percent of the AFC. The AFC is the monthly average of the 24 consecutive highest-paid service credit months.

PERS Plan 1 retirement benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

Plan 1 members may elect to receive an optional COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 provides duty and non-duty disability benefits. Duty disability retirement benefits for disablement prior to the age of 60 consist of a temporary life annuity. The benefit amount is \$350 a month, or two-thirds of the monthly AFC, whichever is less. The benefit is reduced by any workers' compensation benefit and is payable as long as the member remains disabled or until the member attains the age of 60, at which time the benefit is converted to the member's service retirement amount.

A member with five years of covered employment is eligible for non-duty disability retirement. Prior to the age of 55, the benefit amount is 2 percent of the AFC for each year of service reduced by 2 percent for each year that the member's age is less than 55. The total benefit is limited to 60 percent of the AFC and is actuarially reduced to reflect the choice of a survivor option. Plan 1 members may elect to receive an optional COLA amount (based on the Consumer Price Index), capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members are eligible for normal retirement at the age of 65 with five years of service. The monthly benefit is 2 percent of the AFC per year of service. The AFC is the monthly average of the 60 consecutive highest-paid service months. There is no cap on years of service credit; and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually.

City of Shoreline

PERS Plan 2 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 reduced benefit. The benefit is reduced by an early retirement factor (ERF) that varies according to age, for each year before age 65. PERS Plan 2 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions, if hired prior to May 1, 2013:

- With a benefit that is reduced by 3 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 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of 5 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.

PERS Plan 2 retirement benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component and member contributions finance a defined contribution component. As established by Chapter 41.34 RCW, employee contribution rates to the defined contribution component range from 5 percent to 15 percent of salaries, based on member choice. Members who do not choose a contribution rate default to a 5 percent rate. There are currently no requirements for employer contributions to the defined contribution component of PERS Plan 3.

PERS Plan 3 defined contribution retirement benefits are dependent upon the results of investment activities. Members may elect to self-direct the investment of their contributions. Any expenses incurred in conjunction with self-directed investments are paid by members. Absent a member's self-direction, PERS Plan 3 contributions are invested in the Retirement Strategy Fund that assumes the member will retire at age 65.

For DRS' Fiscal Year 2013, PERS Plan 3 employee contributions were \$99.0 million, and plan refunds paid out were \$69.4 million.

The defined benefit portion of PERS Plan 3 provides members a monthly benefit that is 1 percent of the AFC per year of service. The AFC is the monthly average of the 60 consecutive highest-paid service months. There is no cap on years of service credit, and Plan 3 provides the same cost-of-living allowance as Plan 2.

Effective June 7, 2006, PERS 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 twelve months of that service are earned after age 44; or after five service credit years earned in PERS Plan 2 by June 1, 2003. Plan 3 members are immediately vested in the defined contribution portion of their plan.

Vested Plan 3 members are eligible for normal retirement at age 65, or they may retire early with the following conditions and benefits:

- If they have at least ten service credit years and are 55 years old, the benefit is reduced by an ERF that varies with age, for each year before age 65.
- If they have 30 service credit years and are at least 55 years old, and were hired before May 1, 2013, they have the choice of a benefit that is reduced by 3 percent for each year before age 65; or a benefit with a smaller (or no) reduction factor (depending on age) that imposes stricter return-to-work rules.
- If they have 30 service credit years, are at least 55 years old, and were hired after May 1, 2013, they have the option to retire early by accepting a reduction of 5 percent for each year before age 65.

PERS Plan 3 benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

PERS Plan 2 and Plan 3 provide disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 monthly benefit amount is 2 percent of the AFC per year of service. For Plan 3, the monthly benefit amount is 1 percent of the AFC per year of service. These disability benefit amounts are actuarially reduced for each year that the member's age is less than 65, and to reflect the choice of a survivor option. There is no cap on years of service credit, and a cost-of-living allowance is granted (based on the Consumer Price Index) capped at 3 percent annually.

PERS members meeting specific eligibility requirements have options available to enhance their retirement benefits. Some of these options are available to their survivors.

A one-time duty-related death benefit is provided to the beneficiary or the estate of a PERS member who dies as a result of injuries sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of the member's covered employment, if found eligible by the Department of Labor and Industries.

The City of Shoreline has no employees who participate in the Judicial Benefit Multiplier.

There are 1,176 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2012:

Retirees and Beneficiaries Receiving Benefits	82,242
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	30,515
Active Plan Members Vested	106,317
Active Plan Members Nonvested	44,273
Total	263,347

Funding Policy

Each biennium, the state Pension Funding Council adopts PERS Plan 1 employer contribution rates, PERS Plan 2 employer and employee contribution rates, and PERS Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent for state agencies and local government unit employees, and at 7.5 percent for state government elected officials. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. Under PERS Plan 3, employer contributions finance the defined benefit portion of the plan and member contributions finance the defined contribution portion. The Plan 3 employee contribution rates range from 5 percent to 15 percent.

As a result of the implementation of the Judicial Benefit Multiplier Program in January 2007, a second tier of employer and employee rates was developed to fund, along with investment earnings, the increased retirement benefits of those justices and judges that participate in the program

The methods used to determine the contribution requirements are established under state statute in accordance with Chapters 41.40 and 41.45 RCW.

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2013, are as follows:

Members Not Participating in JBM:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	9.21%**	9.21%**	9.21%***
Employee	6.00%****	4.92%****	*****

* The employer rates include the employer administrative expense fee currently set at 0.18%.

City of Shoreline

** The employer rate for state elected officials is 13.73% for Plan 1 and 9.21% for Plan 2 and Plan 3.

*** Plan 3 defined benefit portion only.

**** The employee rate for state elected officials is 7.50% for Plan 1 and 4.92% for Plan 2.

***** Variable from 5.0% minimum to 15.0% maximum based on rate selected by the PERS 3 member.

Members Participating in JBM:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer-State Agency*	11.71%	11.71%	11.71%**
Employer-Local Gov't Units*	9.21%	9.21%	9.21%**
Employee-State Agency	9.76%	9.80%	7.50%***
Employee-Local Gov't Units	12.26%	12.30%	7.50%***

* The employer rates include the employer administrative expense fee currently set at 0.18%.

** Plan 3 defined benefit portion only.

***Minimum rate.

Both the City of Shoreline and the employees made the required contributions. The City of Shoreline's required contributions for the years ended December 31 were as follows:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2013	\$48,871	\$922,201	\$292,958
2012	\$50,477	\$837,403	\$254,615
2011	\$71,845	\$760,361	\$236,753

B. Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) Plans 1 and 2

The City of Shoreline has no employees who participate in the Law Enforcement Officers and Firefighters Retirement System (LEOFF) or the Volunteer Firefighters Retirement System.

C. Local Governments Pension Trust Funds

The City has established a Money Purchase Retirement Plan and Trust under Internal Revenue Code Section 401(a). This is a defined contribution plan, which was established effective April 1996, in lieu of participation by the City in the social security system. Plan assets are held with TIAA-CREF, the current plan provider.

Under this plan employees contribute 6.2%. The City also contributes 6.2% into the employee account. Participation in this plan is mandatory. Employee and employer contributions are vested immediately.

Each employee may direct his/her investment among various investment options. Upon separation of service prior to retirement, all employee contributions may be withdrawn without regard to age.

The City also established a Money Purchase Retirement Plan and Trust in 1997 with the ICMA Retirement Corporation, as an alternative to the Washington State Public Employees Retirement System Plan II. The only employee eligible to participate in this plan is a former City Manager.

As of December 31, 2013, the assets in the TIAA-CREF Money Purchase Plans were valued at \$18,750,579. The inactive ICMA City Manager Money Purchase Plan was valued at \$98,809.

City of Shoreline

D. Deferred Compensation

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plans, available to all benefitted employees, permit them to defer a portion of their salary until future years. The following two plans are offered to City employees: (1) Teachers Insurance and Annuity Association – College Retirement Equities Fund (TIAA-CREF) and (2) The Department of Retirement System's Deferred Compensation Plan (DCP). Each plan has been established pursuant to GASB Statement 32, "Accounting and Financial Reporting for Internal Revenue Code, Section 457 Deferred Compensation Plans."

The City's practical involvement in administering the plans described above is essentially limited to remitting the amounts collected from employees to the plan administrators. It is the opinion of the City's legal counsel that the City's general creditors have no claim to the assets of the aforementioned Trusts. In this case the use of a fiduciary fund to account for the assets of the deferred compensation plan would not be appropriate, because the government is not properly considered to be holding the assets.

As of December 31, 2013, asset contributions within the TIAA-CREF plan totaled \$11,436,545. At the time these statements were prepared, asset contributions within the DCP plan were not available from the plan administrator.

Note 9 – OTHER POSTEMPLOYMENT BENEFIT (OPEB) PLANS **Association of Washington Cities Employee Benefit Trust ("Trust")**

Trust Description. The City is a Participating Employer in the Association of Washington Cities Employee Benefit Trust ("Trust"), a cost-sharing multiple-employer welfare benefit plan administered by the Association of Washington Cities. 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 1-800-562-8981.

Funding Policy. 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 contribute the following monthly amounts:

Health First-1000	Health First-2500
\$830.01 for non-Medicare enrolled retiree coverage	\$724.72 for non-Medicare enrolled retiree coverage
\$837.26 for non-Medicare enrolled spouse coverage	\$729.99 for non-Medicare enrolled spouse coverage
\$443.30 for Medicare enrolled retiree coverage	\$388.08 for Medicare enrolled retiree coverage
\$456.13 for Medicare enrolled spouse coverage	\$398.04 for Medicare enrolled spouse coverage

Participating Employers are not contractually required to contribute an assessed rate each year by the Trust for the non-LEOFF I retirees. The retiree pays for 100% of the premium.

City of Shoreline

Note 10 – CONSTRUCTION COMMITMENTS

The City has active construction projects as of December 31, 2013. The major project is the Aurora Corridor Improvements – 192nd to 205th Improvements project. This contract was awarded in December of 2013 with work expected to begin in January of 2014. At year-end the City's commitment with the contractor for this project was as follows:

Project	Spent to Date	Remaining Contract
Aurora Corridor Improvements – 192nd to 205th	\$0	\$26,910,579

Note 11 - 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.

General obligation bonds currently outstanding are as follows:

Purpose	Maturity Range	Interest Rate	Original Amount	Outstanding 12/31/2013
Unlimited Tax General Obligation Bonds, 2006 - Parks and Open Space	2007 - 2021	3.55% - 4.09%	\$18,795,000	\$11,435,000
Limited Tax General Obligation Bonds, 2009 Series A - City Hall	2010 - 2017	3.00% - 4.00%	3,805,000	2,025,000
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	3,565,000
Total			\$44,505,000	\$35,365,000

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

Year Ending December 31, 2013	Governmental Activities	
	Principal	Interest
2014	\$ 1,820,000	\$ 1,806,990
2015	1,925,000	1,705,205
2016	1,995,000	1,633,730
2017	2,070,000	1,554,267
2018	2,150,000	1,464,842
2019 - 2023	8,545,000	6,057,808
2024 - 2028	4,610,000	4,942,113
2029 - 2033	5,595,000	3,657,840
2034 - 2038	5,430,000	2,098,038
2039	1,225,000	361,920
Total	\$ 35,365,000	\$ 25,282,753

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

City of Shoreline

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, 2013 consisted of the following:

Issue Name	Amount	Annual	Final	Effective	Outstanding
	Borrowed	Installments	Maturity	Rate	12/31/2013
State of WA Public Works Trust Fund Loans:					
Third Avenue Drainage Improvements	\$ 1,959,500	\$ 114,213	2021	0.005	\$ 913,705
Ronald Bog Sub Basin Improvements	3,852,725	212,262	2021	0.005	1,698,092
Total	\$ 5,812,225	\$ 326,475			\$ 2,611,798

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

Year Ending December 31, 2013	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2014	-	-	326,475	13,059
2015	-	-	326,475	11,427
2016	-	-	326,475	9,794
2017	-	-	326,475	8,162
2018	-	-	326,475	6,529
2019 - 2021	-	-	979,424	9,794
Total	\$ -	\$ -	\$ 2,611,798	\$ 58,765

Compensated absences liability is also considered a long-term debt and represents the total unpaid vacation liability of the governmental funds. For the governmental activities, compensated absences are generally liquidated in the General Fund, Street Fund, General Capital Fund and Roads Capital Fund.

Other Long Term Liabilities	Beginning Balance 01/01/13	Additions	Reductions	Outstanding 12/31/2013
Compensated Absences:				
Governmental Activity	689,495	81,366	8,161	\$ 762,700
Business Activity	64,949	-	20,742	\$ 44,207
Total	754,444	81,366	28,903	\$ 806,907

Note 12 – CHANGES IN LONG-TERM LIABILITIES

During the year ended December 31, 2013, the following changes occurred in the long-term liabilities.

	Beginning Balance 01/01/13	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
Bonds payable:					
General Obligation Bonds	\$ 33,465,000	3,565,000	\$ 1,665,000	\$ 35,365,000	\$ 1,820,000
Unamortized Premium	252,788	-	252,788	-	-
Compensated Absences	689,495	81,366	8,161	762,700	-
Governmental Activity long-term liabilities	\$34,407,283	\$3,646,366	\$1,925,948	\$36,127,701	\$1,820,000
Business-Type Activities:					
Public Works Trust Fund Loan	\$ 2,938,272	-	\$ 326,475	\$ 2,611,798	\$ 326,475
Compensated Absences	64,949	-	20,742	44,207	-
Business-type activity long-term liabilities	\$ 3,003,221	\$ -	\$ 347,217	\$ 2,656,004	\$ 326,475

City of Shoreline

Long term debt on January 1, 2013 includes the unamortized premium paid for the issuance of general obligation bonds. During 2013, the unamortized premiums for the issuance of general obligation bonds were eliminated as a prior period adjustment in compliance with GASB Statement 65.

Note 13 – LEASES

During 2013 the City leased office building space used for the City's storefront satellite police stations. These are operating leases which would allow the City or the lessor to cancel the leases. The City leased office space for two satellite police stations. The City leased 1,000 square feet from B.A.M. and SF Partners for the eastside satellite station. In 2013 this lease totaled \$9,149. This lease was cancelled as of December 31, 2013. The City leased 610 square feet from M.L. Davies Investment Company for the Westside satellite station. In 2013 this lease totaled \$7,050. This lease was cancelled as of August 31, 2013. The activities that had been occurring at the police satellite stations were merged and will take place at City Hall.

During 2013, the City also 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 purchased the Highland Park Center in 2006 to use for future City Hall expansion and assumed existing tenant leases. Two tenants are located in the remaining portion of the Highland Park Center and will continue to occupy that building. One of the tenants has a month to month lease, but the other tenant has a lease through December 31, 2017.

Note 14- INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

A. Interfund Receivables/Payables

The composition of interfund balances as of December 31, 2013 is as follows:

Due to /from Other Funds

Receivable Fund	Payable Fund	Amount
General Fund	Surface Water Utility	\$23,156

The outstanding balances between these two funds are due to the accrual of rental expense on the new maintenance facility.

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, 2013 were as follows:

Transfer To	Transfer From					
	General Fund Consolidated	General Capital	Roads Capital	Surface Water Utility	Other Governmental	Total
General Fund Consolidated		\$ 36,520	\$ 54,719	\$ 538,175	\$ 316,631	\$ 946,045
General Capital	250,000				38,535	288,535
Roads Capital	492,239					492,239
Other Governmental	1,728,904	663,390	2,970			2,395,264
Other Internal Service	117,500					117,500
Total	\$ 2,588,643	\$ 699,910	\$ 57,689	\$ 538,175	\$ 355,166	\$ 4,239,583

City of Shoreline

Note 15 - RISK MANAGEMENT

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 162 Members.

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

Liability coverage is written on an occurrence basis, without deductibles. Coverage includes general, automobile, police, public officials' errors or omissions, stop gap, and employee benefits liability. Limits are \$4 million per occurrence self insured layer, and \$16 million per occurrence in the re-insured excess layer. The excess layer is insured by the purchase of reinsurance and insurance and is subject to aggregate limits. Total limits are \$20 million per occurrence subject to aggregate sublimits in the excess layers. The Board of Directors determines the limits and terms of coverage annually.

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

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

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

An investment committee, using investment brokers, produces additional revenue by investment of WCIA's assets in financial instruments which comply with all State guidelines.

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.

Note 16 – 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 City's 2013 allocation (payments) based on 2012 collections was \$11,701. The 1993 bond issue was retired in the year 2002. The 1996 bond issue will be 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.

City of Shoreline

Litigation

At December 31, 2013 a pending appeal judgment for attorney fees related to the O'Neill case was outstanding. The City is awaiting a final ruling from the court. The judgment is estimated to result in an additional judgment for attorney fees of \$20,000 or a refund of up to \$435,000 of attorney fees paid during 2013. The City has an insurance contingency of \$255,000 to be used for settlements and judgments not covered by insurance.

CITY OF SHORELINE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For Year Ended December 31, 2013

1 Federal Agency Name/ Pass-Through Agency Name	2 Federal Program Name	3 CFDA Number	4 Other Award Number	5 Expenditures			6 Foot-note Ref.
				From Pass-Through Awards	From Direct Awards	Total	
Department of Agriculture / pass-through WA State Department of Natural Resources	Cooperative Forestry Assistance	10.66	IAA-13-250/K244-11-DG-015	\$3,600		\$3,600	5
		10.66	13-355/K244	10,000		10,000	
			Subtotal	13,600		13,600	
Department of Housing and Urban Development / pass-through King County Housing and Community Development	Community Development Block Grants/Entitlement Grants	14.218	5593315/(C13039)	85,700		85,700	
		14.218	5593315/(C13545)	30,705		\$ 30,705	
		14.218	5593315/(C13555)	30,705		30,705	
			Subtotal	147,110		147,110	
Department of Justice	Joint Law Enforcement Operations (JLEO)	16.111	PA-WAW-0261		12,811	12,811	
Department of Justice	Edward Byrne Memorial Justice Assistance Grant Program	16.738	2010-DJ-BX-0622		12,924	12,924	
Department of Transportation / pass-through WA State Department of Transportation	Highway Planning and Construction	20.205	LA7998/HSIP-005(353)	90,625		90,625	4
		20.205	LA8184	23,038		23,038	
		20.205	LA-7292	539,907		539,907	
		20.205	LA-8298	4,858		4,858	
		20.205	LA-7292 & LA-5877	752,134		752,134	
			Subtotal	1,410,562		1,410,562	
Department of Transportation / pass-through King County Department of Transportation	Federal Transit _Capital Investment Grants	20.500	WA-04-0080	39,231		39,231	2
Department of Transportation / pass-through WA Association of Sheriffs & Police Chiefs	State and Community Highway Safety	20.600	N/A	7,356		7,356	
Department of the Treasury	Exchange of Federal Tax Information with State Agencies	21.004	N/A		20,092	20,092	
Department of Energy	ARRA-Energy Efficiency and Conservation Block Grant Program (EECBG)	81.128	DE-SC0002063		122,220	122,220	3
Department of Homeland Security / pass-through WA State Military Department, Emergency Management Division	Emergency Management Performance Grants	97.042	E12-346 & E14-117	47,002		47,002	
Total Federal Awards Expended				\$1,664,861	\$168,047	\$1,832,908	

The accompanying notes to the Schedule of Expenditures of Federal Awards are an integral part of this Schedule.

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 accrual basis.

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, may be more than shown.

NOTE 3 - AMERICAN RECOVERY AND REINVESTMENT ACT (ARRA) OF 2009

Expenditures for this program were funded by ARRA

NOTE 4 - PROGRAM INCOME

This program received \$2,216 in rental income for parking by an adjacent property owner on land purchased for right-of-way purposes.

NOTE 5 - NON-CASH AWARD

This program received \$10,000 of professional services from the granting agency to complete a tree inventory.

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.

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