



Washington State Auditor's Office

Government that works for citizens

Financial Statements and Federal Single Audit Report

City of Everett

Snohomish County

For the period January 1, 2015 through December 31, 2015

Published September 26, 2016

Report No. 1017561





Washington State Auditor's Office

September 26, 2016

Mayor and City Council
City of Everett
Everett, Washington

Report on Financial Statements and Federal Single Audit

Please find attached our report on the City of Everett'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,

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**City of Everett
Snohomish County
January 1, 2015 through December 31, 2015**

SECTION I – SUMMARY OF AUDITOR’S RESULTS

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

Financial Statements

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

Internal Control over Financial Reporting:

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

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

Federal Awards

Internal Control over Major Programs:

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

We issued an unmodified opinion on the City’s compliance with requirements applicable to each of its major federal programs.

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

Identification of Major Federal Programs:

The following programs were selected as major programs in our audit of compliance in accordance with the Uniform Guidance.

<u>CFDA No.</u>	<u>Program or Cluster Title</u>
14.239	Home Investment Partnerships Program
14.218	Community Development Block Grants/Entitlement Grants
20.205	Highway Planning and Construction

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

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

SECTION II – FINANCIAL STATEMENT FINDINGS

None reported.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

City of Everett Snohomish County January 1, 2015 through December 31, 2015

This schedule presents the status of federal findings reported in prior audit periods. The status listed below is the representation of the City of Everett. The State Auditor's Office has reviewed the status as presented by the City.

Audit Period: 1/1/2014 to 12/31/2014	Report Ref. No: 1014655	Finding Ref. No: 2014-001	CFDA Number(s): 14.218
Federal Program Name and Granting Agency: 14.218 – Community Development Block Grants / Entitlement Grants; U.S. Department of Housing and Urban Development (HUD)		Pass-Through Agency Name: NA due to a direct award	
Finding Caption: The City's internal controls were not adequate to ensure compliance with Federal Funding Accountability and Transparency Act reporting requirements.			
Background: The Federal Funding Accountability and Transparency Act of 2006 (FFATA) requires grantees to report subawards for amounts of \$25,000 or more. The grantee must report each subaward by the end of the month following the month in which it was granted. Our audit focused on the City's 2013 and 2014 grant award as the program's fiscal year is July 1-June 30. We found the City did not have sufficient internal controls in place to ensure the fiscal year 2013 and 2014 FFATA reports were submitted before the deadline for the five non-profit organizations who received more than \$25,000 from the City. The amount spent during our audit period from these five subrecipients totaled \$597,100. We consider the control deficiency to be a material weakness. When our Office discovered the reports had not been submitted, the City started the process to submit the required reports.			
Status of Corrective Action: <div style="display: flex; justify-content: space-between; align-items: flex-start;"> <div style="text-align: center;"> <input checked="" type="checkbox"/> Fully Corrected </div> <div style="text-align: center;"> <input type="checkbox"/> Partially Corrected </div> <div style="text-align: center;"> <input type="checkbox"/> Not Corrected </div> <div style="text-align: center;"> <input type="checkbox"/> Finding is considered no longer valid </div> </div>			

Corrective Action Taken:

The City completed the required reporting in FFATA Subaward Reporting System for the CDBG funds provided to the subrecipients. The City also developed FFATA data collection instructions, which were distributed to the staff responsible for sub recipient monitoring.

**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 Everett
Snohomish County
January 1, 2015 through December 31, 2015**

Mayor and City Council
City of Everett
Everett, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Everett, Snohomish County, Washington, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 28, 2016. As discussed in Note 1 to the financial statements, during the year ended December 31, 2015, the City implemented Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*.

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

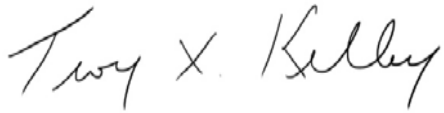
As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of the City's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material 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.

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

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

June 28, 2016

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

**City of Everett
Snohomish County
January 1, 2015 through December 31, 2015**

Mayor and City Council
City of Everett
Everett, Washington

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

We have audited the compliance of the City of Everett, Snohomish County, Washington, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended December 31, 2015. The City's major federal programs are identified in the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

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

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2015.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

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

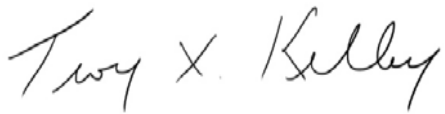
A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement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

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

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

Purpose of this Report

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

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

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

September 14, 2016

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

City of Everett Snohomish County January 1, 2015 through December 31, 2015

Mayor and City Council
City of Everett
Everett, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Everett, Snohomish County, Washington, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed on page 18.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Everett, as of December 31, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As discussed in Note 1 to the financial statements, in 2015, the City adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. 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 20 through 31, budgetary comparison information on pages 89 through 91, pension plan information on pages 92 through 97 and information on postemployment benefits other than pensions on page 98 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required

supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

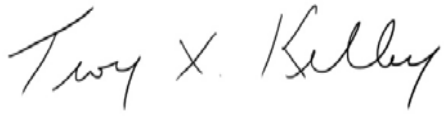
Supplementary and Other Information

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

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated June 28, 2016 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an

integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Troy X. Kelley". The signature is written in dark ink and is positioned above the printed name.

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

June 28, 2016

FINANCIAL SECTION

City of Everett Snohomish County January 1, 2015 through December 31, 2015

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2015

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2015

Statement of Activities – 2015

Balance Sheet – Governmental Funds – 2015

Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position – 2015

Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds – 2015

Reconciliation of Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities – 2015

Statement of Net Position – Proprietary Funds – 2015

Statement of Revenues, Expenses and Changes in Fund Net Position – Proprietary Funds – 2015

Statement of Cash Flows – Proprietary Funds – 2015

Statement of Net Position – Fiduciary Funds – 2015

Statement of Changes in Fiduciary Net Position – Fiduciary Funds – 2015

Notes to Financial Statements – 2015

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual General Fund – 2015

Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual Capital Improvement Reserve Fund – 2015

Notes to the Budgetary Comparison Schedules – 2015

Pension Plan Information – 2015

Information on Postemployment Benefits Other Than Pensions – 2015

SUPPLEMENTARY AND OTHER INFORMATION

Statement of Expenditures of Federal Awards – 2015

Notes to the Statement of Expenditures of Federal Awards – 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the City of Everett's annual financial report provides a narrative overview of the City's financial activities for the fiscal year ended December 31, 2015. The intent of this discussion and analysis is to review the City's financial performance as a whole. Please read it in conjunction with the Letter of Transmittal, the Financial Statements, and the Notes to the Financial Statements.

2015 FINANCIAL HIGHLIGHTS

- At December 31, 2015, the City's net position, the amount by which total assets exceed total liabilities, totaled \$880.5 million. Of this amount, \$675.9 million, or 76.8%, is invested in capital assets that support the activities of the City. Of the remaining net position, \$169.2 million is unrestricted and may be used to meet the City's ongoing obligations.
- The net position of the governmental activities was \$434.3 million, an increase of \$16.8 million, or 4.0% over 2014. The growth was due primarily to increases in general tax revenues of \$8.2 million, particularly business and excise taxes, and increased capital grant revenue of \$7.7 million invested in major projects described in Note 11. Increases in tax revenue are an indicator of improved economic activity. Net position was also affected by prior period adjustments of \$862,307 described in Note 18 C. a special item arising from a change in estimate described in Note 18 B, as well as a change in accounting principle which reduced net position by \$16.2 million arising from the implementation of GASB 68 described in Note 18 A.
- Business-type activities reported net position of \$446.1 million, which represents a decrease of \$5 million, or 1% under 2014. The change was due primarily to implementation of GASB 68 which reduced net position by \$21.9 million, offsetting increases in program revenue of \$3.7 million and general taxes of \$1.0 million. As well as a new bond issue of \$50.5 million. Taxes increased primarily as the result of rate increases in electric, gas and telephone as well as improved economic activity.
- The City implemented Governmental Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pensions, and Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date, in 2015. The primary objective of Statement No. 68 as amended by Statement No. 71 is to provide decision-useful information on the effects of pension related transactions and other events on the basic financial statements of state and local government employees, and to provide users with information about the government pension obligations and the resources available to satisfy those obligations. This accounting principle affected all pension plans of the City including cost-sharing plans administered by the Washington State Department of Retirement systems as well as the single-employer plans for Police and Fire administered by the City of Everett. The initial implementation of this accounting standard resulted in a net reduction of net position of \$38.2 million.

OVERVIEW OF THE FINANCIAL STATEMENTS

The minimum requirements of the City's annual financial report include the Management's Discussion and Analysis (MD&A), the basic financial statements, and required supplementary information. This discussion and analysis provides an overview of the City's basic financial statements which consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

In addition to the required components, the City's annual report includes other voluntary supplementary information. The additional supplementary information includes a section with combining statements that provides details about the City's non-major funds and internal service funds -- all of which are added together and presented in single columns in the basic financial statements.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

Government-wide financial statements provide readers with a broad overview of the City's finances in a manner similar to a private-sector business. They provide both short-term and long-term information about the City's financial status as a whole.

The government-wide statements distinguish between functions of the City that are principally supported by taxes and intergovernmental revenues (referred to as "governmental activities") from functions that are intended to recover all or a significant portion of their costs through user fees and charges (referred to as "business-type activities"). The

City also includes the Everett Public Facilities District (EPFD) as a discretely presented component unit in its report. A component unit is a governmental unit over which the City can exercise influence and/or may be obligated to provide a financial subsidy. The EPFD is presented in a separate column in the government-wide statements. This presentation allows users of the government-wide financial statements to focus on the primary government as well as address the City's relative relationship with the EPFD.

The Statement of Net Position presents information on all of the City's assets, deferred outflow of resources, liabilities, and deferred inflow of resources, with the difference between the two reported as net position. This statement combines and consolidates governmental funds' current financial resources (short-term spendable resources) with capital assets and long-term obligations. The Statement of Net position serves a purpose similar to that of the Balance Sheet of a private-sector business. Over time, increases or decreases in net position may serve as one indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities presents information on the net cost of each governmental and business-type activity as well as information on how the government's net position changed during the fiscal year. This statement also separates program revenue (revenue generated by specific activities through charges for services, grants, and contributions) from general revenue (revenue provided by taxes and other sources not tied to a particular activity). By separating program revenue from general revenue, users of the financial statements can identify the extent to which each activity relies on taxes for funding.

All changes in net position are reported using the accrual basis of accounting, which is similar to the accounting used by private-sector businesses. The accrual basis of accounting requires that revenues are reported when earned and expenses are reported when incurred, regardless of the timing of when cash is received or paid. For instance, uncollected taxes and unpaid vendor invoices for items received in the current fiscal year are included in the statement of activities as revenue and expense, even though the cash associated with these items will not be received or distributed until future fiscal periods.

FUND FINANCIAL STATEMENTS

While the government-wide statements look at the City as a whole and focus on types of activities (general government versus business-type activities), the fund financial statements provide a more detailed look at the City's individual major funds and combined fund types.

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 uses funds to ensure and demonstrate fiscal accountability and compliance with finance-related legal requirements. The City's funds fall into three types: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds account for most of the City's tax-supported activities and are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, the focus of governmental fund financial statements is on near-term inflows and outflows of spendable resources and on balances of spendable resources available at the end of the fiscal year. Such information is useful in evaluating whether there are more or less financial resources that can be spent in the near future to finance City services. Approximately 24% of total governmental fund balances is considered nonspendable and not available to finance City services in the near future. Nonspendable balances consist mainly of loans receivable from the component unit, Everett Public Facilities District.

The Governmental Fund Balance Sheet and the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances present separate columns of financial data for the General Fund and the Capital Improvement Reserve Fund. These are the City's major governmental funds. Data from the remaining governmental funds are combined and presented in a single, aggregated column in the fund statements. Individual fund data for each of the non-major governmental funds is provided as combining statements following the basic financial statements.

Because the focus of governmental fund financial statements is narrower than that of the government-wide financial statements, it is useful to compare information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. This gives the reader a better understanding of 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 the governmental activities column in the government-wide statements to facilitate this comparison.

The City maintains budgetary controls over its governmental funds. Budgetary controls ensure compliance with legal provisions embodied in the annual appropriated budget. Governmental fund budgets are established in accordance

with state law and are adopted on a fund level. General Fund budget variances are reviewed later in this discussion and analysis.

Proprietary funds are used to account for the City's business-type activities where all, or part, of the costs of activities are supported by fees and charges that are paid directly by those who benefit from the activities. The fund level statements provide the same type of information as the government-wide financial statements, only in more detail, since both apply the accrual basis of accounting. In comparing the total assets and total liabilities between the two statements, you will notice only slight differences. One notable difference is that the "due from other funds" (asset) and the "due to other funds" (liability) are combined in a single line called "Internal balances" in the assets section of the government-wide Statement of Net Position.

The City reports two types of proprietary funds: enterprise and internal service funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Internal service funds are used to report activities that provide supplies and services to various City departments and to accumulate and allocate the associated costs of providing these supplies and services to the various functions. The revenues and expenses of internal service funds that are duplicated in other funds are eliminated in the government-wide statements. The net difference between revenues and expenses are allocated to other funds and become the only reconciling item between government-wide financial statements and Proprietary Funds Statement of Net Position and Statement of Revenues, Expenses, and Changes in Fund Net Position. Because the internal service funds primarily benefit governmental, rather than business-type activities, the internal service funds are aggregated and included within governmental activities in the government-wide Statement of net Position.

The Proprietary Fund Statement of Net Position and the Proprietary Fund Statement of Revenues, Expenses, and Changes in Fund Net Position present separate columns of financial data for the Water and Sewer Utility Fund and the Transit Fund. These are the City's major enterprise funds. Data from the remaining enterprise funds are combined and presented in a single, aggregated column in the fund statements. Individual fund data for each of the non-major enterprise funds, as well as the internal service funds, are provided in as combining statements following the basic financial statements.

Fiduciary Funds are used to account for resources held by the City in a trustee capacity, or as an agent for outside individuals or private organizations. Fiduciary funds are not reported in the government-wide financial statements because the resources of those funds are not available to support the City's own operations. The City's fiduciary activities are reported in a separate Statement of Fiduciary Net position and a Statement of Changes in Fiduciary Net Position as part of the basic financial statements.

NOTES TO THE FINANCIAL STATEMENTS

The notes provide additional information that is essential to a full understanding of the data provided, and are an integral part of the government-wide and fund financial statements.

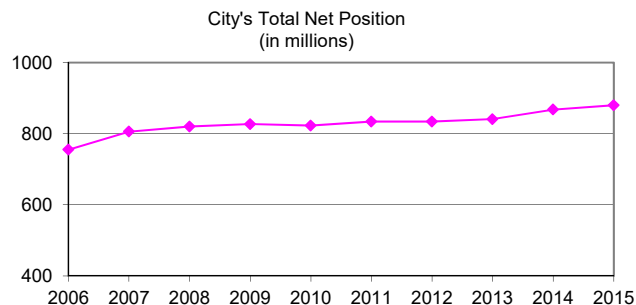
OTHER INFORMATION

In addition to the basic financial statements and accompanying notes, this report contains certain required supplementary information concerning the City's Fire and Police Pension Funds and Other Post Employment Benefit Funds as well as the City's participation in five Washington State retirement plans.

The combining statements referred to earlier for non-major governmental and enterprise funds, as well as internal services funds, are presented immediately following the required supplementary information.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, changes in net position over time may serve as a useful indicator of a government's financial position. The City's total net position at December 31, 2014, was \$868.7 million. At December 31, 2015, the total net position was \$880.5 million. As the chart below illustrates, the City's net position was relatively unchanged from 2007 through 2012 but has been growing since 2013.



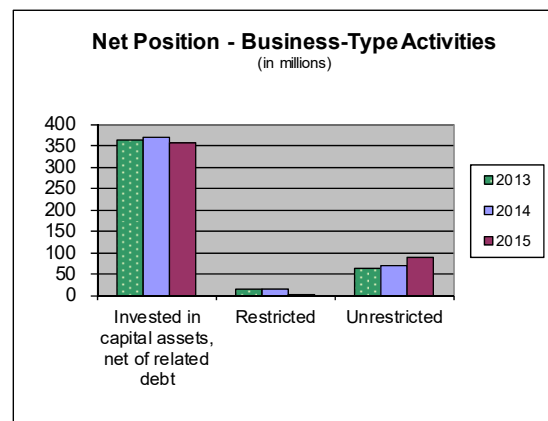
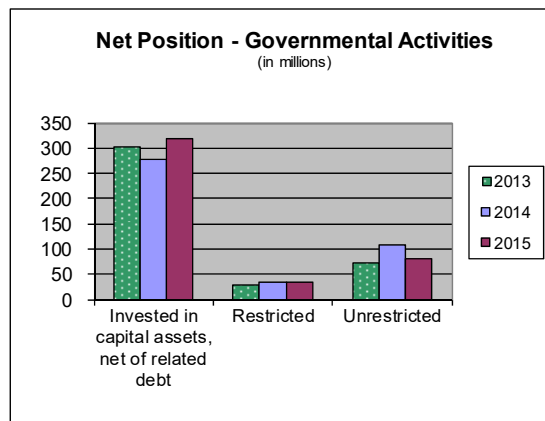
Elements contributing to the change in net position are discussed in the Governmental and Business-Type Activities Analysis sections. The table below presents a condensed version of the Government-Wide Statement of Net Position.

Table 1
City of Everett's Net Position
(in thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2015	2014	2015	2014	2015	2014
Current and other assets	\$ 208,518	\$ 182,226	\$ 115,048	\$ 89,437	\$ 323,566	\$ 271,663
Capital assets, net	340,403	326,566	595,487	564,714	935,890	891,280
Total assets	548,921	508,792	710,535	654,151	1,259,456	1,162,943
Total deferred outflows of resources	6,472	-	4,739	1,713	11,211	1,713
Long-term liabilities	102,424	79,146	260,505	196,489	362,929	275,635
Other liabilities	6,432	12,099	5,558	8,214	11,990	20,313
Total liabilities	108,856	91,245	266,063	204,703	374,919	295,948
Total deferred inflows of resources	12,213	-	3,058	-	15,271	-
Net position						
Net investment in capital assets	319,403	276,688	356,474	369,639	675,877	646,327
Restricted	34,047	34,196	1,310	13,259	35,357	47,455
Unrestricted (deficit)	80,874	106,663	88,369	68,263	169,243	174,926
Total net position	\$ 434,324	\$ 417,547	\$ 446,153	\$ 451,161	\$ 880,477	\$ 868,708

As depicted in the charts below, the majority of the City's net position is invested in capital assets, which are used to provide services to citizens. Capital assets include streets, water/sewer lines and related utilities infrastructure, land, buildings, equipment, etc., less any related outstanding debt used to acquire those assets. It should be noted that, although the investment in capital assets is reported net of related debt, resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

Restricted assets represent resources that are subject to external restrictions on how they may be used. The Statement of Net Position further breaks out restricted assets into major categories. For example, the \$9.1 million in assets obtained through the Emergency Medical Services levy and criminal justice grant funding are restricted to public safety use. The 2015 year-end unrestricted net position of \$80.9 million in governmental activities and \$88.3 million in business-type activities may be used to meet ongoing obligations.



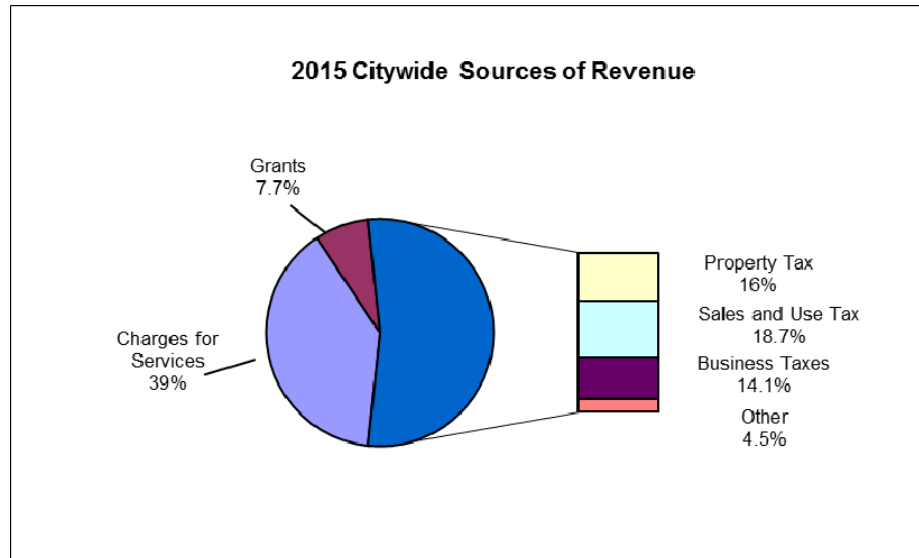
At December 31, 2015, the City reported positive balances in all three categories of net position for both governmental and business-type activities. The same situation has held true for the past ten years.

The table below contains condensed financial information derived from the government-wide statement of activities comparing the current year to the prior year.

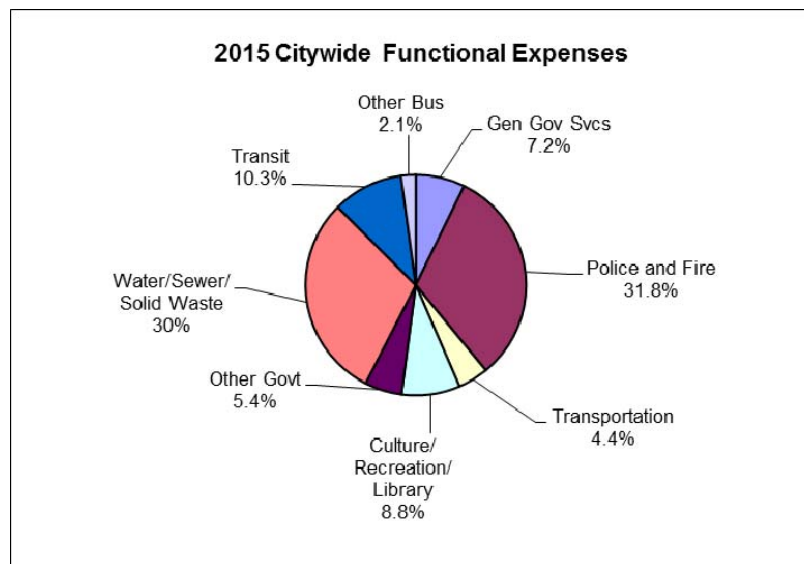
Table 2
City of Everett's Changes in Net Position
(in thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2015	2014	2015	2014	2015	2014
Revenues						
Program revenues:						
Charges for services	\$ 15,131	\$ 13,394	\$ 83,140	\$ 80,981	\$ 98,271	\$ 94,375
Operating grants and contributions	2,908	2,388	1,486	1,303	4,394	3,691
Capital grants and contributions	9,630	2,442	5,433	4,095	15,063	6,537
General revenues:						
Property taxes	40,332	39,155	-	-	40,332	39,155
Sales taxes	28,725	27,026	18,327	17,315	47,052	44,341
Business taxes	35,463	31,981	107	97	35,570	32,078
Other taxes	10,988	9,122	235	240	11,223	9,362
Sale of assets	42	-	784	-	826	-
Interest and investment earnings	2,183	4,773	1,508	4,580	3,691	9,353
TOTAL REVENUES	\$ 145,402	\$ 130,281	\$ 111,020	\$ 108,611	\$ 256,422	\$ 238,892
Program Expenses						
Governmental activities:						
General government services	\$ 15,229	\$ 17,962	\$ -	\$ -	\$ 15,229	\$ 17,962
Police	37,914	35,789	-	-	37,914	35,789
Fire	29,193	29,621	-	-	29,193	29,621
Engineering & construction services	3,324	3,757	-	-	3,324	3,757
Transportation	9,407	7,908	-	-	9,407	7,908
Community services	4,726	7,310	-	-	4,726	7,310
Library	4,862	5,384	-	-	4,862	5,384
Culture and recreation	13,224	13,062	-	-	13,224	13,062
Judicial	1,986	-	-	-	1,986	-
Social services	959	-	-	-	959	-
Interest on long-term debt	454	513	-	-	454	513
Business-type activities:						
Water	-	-	29,305	28,925	29,305	28,925
Sewer	-	-	32,883	31,986	32,883	31,986
Solid waste	-	-	1,003	788	1,003	788
Parking	-	-	273	274	273	274
Transit	-	-	21,797	23,749	21,797	23,749
Golf	-	-	4,298	4,312	4,298	4,312
TOTAL EXPENSES	\$ 121,278	\$ 121,306	\$ 89,559	\$ 90,034	\$ 210,837	\$ 211,340
Increases (decreases) in net position before transf	\$ 24,124	\$ 8,975	\$ 21,461	\$ 18,577	\$ 45,585	\$ 27,552
Transfers	4,543	4,357	(4,543)	(4,357)	-	-
Increase in net position	\$ 28,667	\$ 13,332	\$ 16,918	\$ 14,220	\$ 45,585	\$ 27,552
Net position - beginning	417,547	404,215	451,161	436,941	868,708	841,156
Prior period adjustment	4,359	-	-	-	4,359	-
Change in accounting principle	(16,249)	-	(21,926)	-	(38,175)	-
Net position - ending	\$ 434,324	\$ 417,547	\$ 446,153	\$ 451,161	\$ 880,477	\$ 868,708

As shown in the chart below, taxes made up 53.2% of total revenue received by the City as a whole in 2015. Total tax revenues increased by \$9.2 million, mostly due to increases in sales and business taxes from new tax revenue streams and improvement in the overall economy as well as an increase in tax and service rates. Of the 39% in charges for services, 84.6% is from business-type activities.



The following chart compares the functional expenses of the City. The largest expense is the combined police and fire functions, making up nearly one third of the City's total expenses. A close second is the combined water/sewer/solid waste functions.

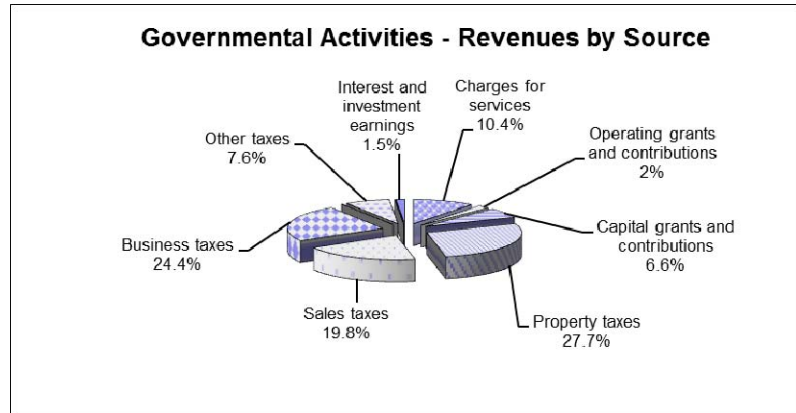


GOVERNMENTAL ACTIVITIES ANALYSIS

As shown in the Statement of Activities, total expenses for all governmental activities in 2015 were \$121.3 million. Of this amount, \$27.7 million was paid for either by those who directly benefited from the programs or by other governments and organizations that subsidized certain programs with grants and contributions. The net expense (total expenses less program revenues) of \$93.6 million was the cost of governmental activity services paid primarily by City taxpayers.

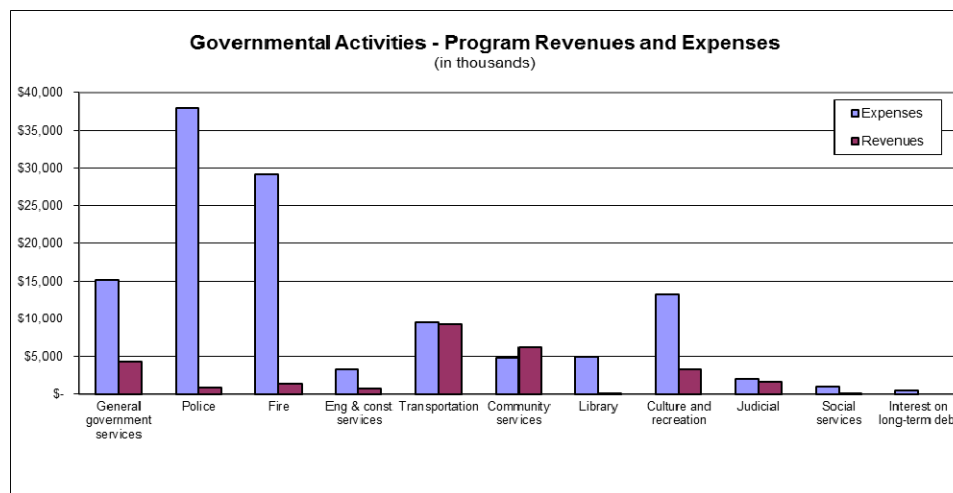
Revenues

Total governmental activity revenues (excluding transfers) increased by \$15.1 million. Sales and business tax revenues increased by \$5.2 million due to new tax revenue streams and an improving local economy.



Expenses

Total governmental activity expenses remained substantially the same from 2014 to 2015. Police and Fire activities account for over 55% of governmental activity expenses. The relative lack of change in expenses was due largely to Fire retroactive pay of several years in 2014 offset in 2015 by an increase in pension expense from the implementation of GASB 68.

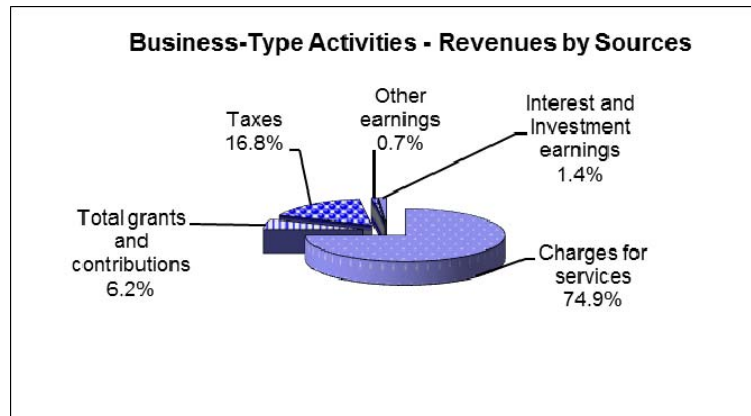


BUSINESS-TYPE ACTIVITIES ANALYSIS

In 2015, program revenues provided \$90 million to cover \$89.5 million in business-type activity expenses, leaving a net revenue of \$0.5 million.

Revenues

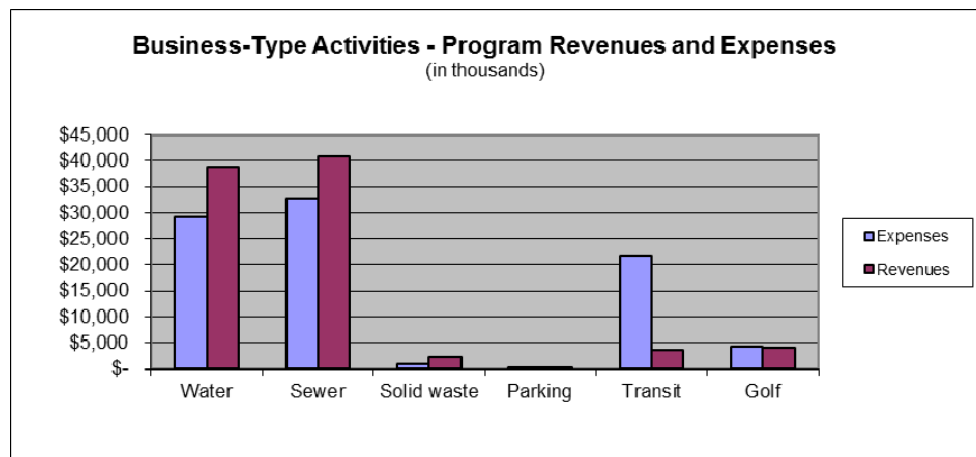
Total business-type revenues increased by \$2.4 million from the prior year. As shown in the chart below, the majority of business-type activity revenue is from charges for services, which grew by \$2.2 million from 2014 due mainly to a rate increase implemented to address the City's capital replacement and improvement programs and finance inflation-based cost increases in operations and maintenance. This increase was aided by a \$1.5 million increase in grants and a \$1.0 million increase in taxes, mainly sales tax, offset by a decrease in investment revenue of \$3 million. Grant revenue can fluctuate widely from year to year based on a number of factors, including the availability of federal and state grants, whether the City has applied for and received grant awards, and whether the City has major capital projects in progress. Sales tax growth indicates a return of consumer confidence and a strengthening business climate.



Expenses

The total business-type expenses for 2015 were \$89.5 Million, which is fairly consistent with activity in 2014.

The chart below depicts the revenues and expenses for each of the City's business-type programs. As shown, Water, Sewer, Solid Waste and Parking each generated enough program revenue (primarily user fees) to cover operating costs, while Transit and Golf did not. These activities are discussed in more detail in the Business-type Funds Analysis section.



FUND-LEVEL FINANCIAL ANALYSIS

GOVERNMENTAL FUNDS

As discussed above, governmental funds are reported in the fund statements with a short-term, spendable resources focus. This information is useful in assessing whether resources available at year-end are adequate to cover upcoming financing requirements.

GASB Statement No. 54 established fund balance classifications that comprise a hierarchy based on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The five components of fund balance are as follows:

- Non-spendable fund balance - examples are inventory and prepaid items.
- Spendable fund balance:
 - Restricted fund balance: externally enforceable legal restrictions such as those related to traffic mitigation revenue and grant receipts.
 - Committed fund balance: funds that can only be used for purposes pursuant to constraints imposed by formal action of the City Council.
 - Assigned fund balance: amounts that reflect the City's intended use of resources in the special revenue, capital projects, and debt service funds.
 - Unassigned fund balance: residual net resources that are not properly classified in one of the above four categories.

At year-end, the governmental funds reported a combined ending fund balance of \$148.4 million. This is a \$3.5 million increase from the prior year-end. The increase is due to improvement in the local economy, which positively impacted tax revenues--sales tax, business & occupation tax, and real estate excise tax, in particular.

Approximately 52.7% of the total ending fund balance of governmental funds is classified as either assigned or unassigned, which means the funds are available for spending at the City's discretion.

General Fund — The general fund is the City's primary operating fund and the largest funding source for day-to-day service delivery. As a result of GASB Statement No. 54 implementation, several funds previously classified as special revenue funds are now combined with the general fund. Without the consolidation, the fund balance increased by \$1.3 million or 1.9%. As mentioned above the increase was mostly due to growth in long term receivables and tax revenues.

Capital Improvement Reserve Fund — The City's other major governmental fund recorded an increase of \$1.6 million in fund balance. As the name indicates, this fund accumulates money to pay for capital projects; therefore, expenditures and fund balance can fluctuate widely from year to year.

Other Governmental Funds — Total fund balance for other governmental funds increased by \$1.7 million, primarily due to the increases in total other financing sources as a result of bond issuance.

BUSINESS-TYPE FUNDS

Water/Sewer Utility Fund — This fund is the largest business-type fund in the City, accounting for \$386.4 million, or 86.6%, of the business-type net position. Of this amount, \$295 million is invested in capital assets, \$1.3 million is classified as restricted (primarily for debt service), and \$90.1 million is classified as unrestricted. The fund's 2015 net income, before contributions and transfers, was \$13.3 million, which is substantially the same as 2014. The Utility has the ability to set rates to cover anticipated operating costs.

Transit Fund — This is the City's other major business-type fund. It reported a \$18.4 million operating loss in 2015 (before non-operating revenues and capital contributions). The loss was reduced by the voter approved 0.6% sales tax, which is dedicated for transit purposes. Total sales tax collections in 2015 totaled \$18.6 million, an increase of \$1 million over 2014.

Other Business-type Funds — The Golf Fund reported net loss of \$73,942 compared to net loss of \$405,858 in 2014. Management continues to implement elements of its business plan to increase revenues and decrease expenses.

GENERAL FUND BUDGETARY HIGHLIGHTS

Original budget compared to final budget

The final General Fund final revenue budget (including transfers-in) was \$0.5 million, or 0.5% greater than the original budget. The majority of the increase (\$729,649) was in grant revenue, resulting from re-appropriations from the 2014 budget and new grants awarded in 2015. This increase was offset by an interfund revenue decrease of \$345,000 due to the transfer of Everett Station security and custodial services from the General Fund to the Transit Fund.

The final expenditure budget (including transfers-out) was \$10.9 million or 10.9% greater than the original budget. This included increases to grant related expenditure budgets to match the grant revenue noted above. It also included reappropriations from the 2014 budget of \$1.7 million for contingencies related to labor contract settlements. In addition, \$8.3 million was re-appropriated to prefund the LEOFF 1 Police and Fire pensions and insurance reserves, and contribute to the capital improvement program reserve. The \$8.3 million re-appropriation for prefunding 2016 expenditures was possible as a result of department's efforts to reduce expenditures in 2015. Most departments achieved expenditure reductions by holding open vacant positions.

Actual results compared to final budget

General Fund revenue came in over the final amended budget by \$4.2 million or 4.4%. The majority of this amount is due to positive performance in sales tax, business taxes, and licenses and permits.

Expenditures ended the year \$7.6 million or 6.8% under budget. \$1.7 million of this amount was due to not spending the contingency that was set aside at the beginning of the year. \$4.3 million was the result of labor savings from holding open several vacant positions and \$1.6 million was due to maintenance and operations expenditures coming in under budget; including jail fees by \$268,500 and the indigent defense program by \$262,500. These amounts were re-appropriated to the 2015 budget as the City continues to work to close budget gaps.

CAPITAL ASSET AND DEBT ADMINISTRATION

CAPITAL ASSETS

As of December 31, 2015, the City of Everett's investment in capital assets, including construction in progress, for its governmental and business-type activities amounted to \$935.9 million. The year-end balance represents a net increase (additions less retirements and depreciation) of \$44.6 million from the end of the prior year.

Table 3
City of Everett's Capital Assets
(net of accumulated depreciation)
(in thousands)

	Governmental Activities		Business-Type Activities		Total Activities	
	2015	2014	2015	2014	2015	2014
Land	\$ 60,410	\$ 60,647	\$ 34,536	\$ 34,536	\$ 94,946	\$ 95,183
Buildings	64,432	65,268	123,943	127,921	188,375	193,189
Improvements other than buildings	14,544	13,666	335,239	342,270	349,783	355,936
Infrastructure	187,474	173,318	1,534	1,630	189,008	174,948
Machinery and equipment	10,720	10,312	13,803	13,776	24,523	24,088
Intangibles	398	315	9,948	10,151	10,346	10,466
Construction in progress	2,426	3,040	76,484	34,429	78,910	37,469
	<u>\$ 340,404</u>	<u>\$ 326,566</u>	<u>\$ 595,487</u>	<u>\$ 564,713</u>	<u>\$ 935,891</u>	<u>\$ 891,279</u>

Major governmental capital asset investments for the year included (in millions):

- Broadway Bridge Replacement.....\$10.0
- 2015 overlay program 6.9
- Jackson Park Renovation 1.9
- Citywide LED Streetlight Conversion Project..... 1.1

Major business-type capital asset investments for the year included (in millions):

- WPCF Expansion, Phase C\$ 14.2
- Sewer Replacement "M"8.5
- Sewer Replacement "L"5.8
- Lift Station 33 Replacement2.8
- Grand Avenue Park Pedestrian Bridge project1.1

Additional information about the City of Everett's capital assets can be found in Note 6 to the financial statements.

DEBT ADMINISTRATION

As shown in the table below, the City's total outstanding debt at December 31, 2015, was \$276.2 million. Of this amount, \$50.6 million is bonded debt backed by the full faith and credit of the City, \$188.4 million is bonded debt secured solely by water and sewer user fees, and \$37.2 million is in Public Works Trust Fund and State Revolving Fund loans.

The City's total debt outstanding increased by a net amount (new issues less principal payments and refundings) of \$44.5 million from the prior year end. The major debt transactions that contributed to this change are detailed below.

- The City issued \$50.5 million in Water/Sewer Revenue Bonds in 2015.
- The City redeemed \$5.1 million of Revenue debt in 2015.

Table 4
City of Everett's Outstanding Debt
(in thousands)

	Governmental Activities		Business-Type Activities		Total Activities	
	2015	2014	2015	2014	2015	2014
General obligation bonds	\$ 46,650	\$ 48,260	\$ 4,000	\$ 5,000	\$ 50,650	\$ 53,260
Revenue debt	-	-	188,365	142,965	188,365	142,965
Other long-term debt	1,775	773	35,445	34,691	37,220	35,464
	<u>\$ 48,425</u>	<u>\$ 49,033</u>	<u>\$ 227,810</u>	<u>\$ 182,656</u>	<u>\$ 276,235</u>	<u>\$ 231,689</u>

The City practices conservative fiscal policy and adheres to the fund balance policy instituted in 2004. This helps the City maintain high credit ratings to assist in obtaining financing at the lowest possible cost. The City's bond rating, according to Standard & Poor's, is AA+ for both its general obligation and revenue debt.

Additional details about the City's long-term debt can be found in Note 10 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Principal factors influencing the City's 2016 budget include: continued improvement in retail sales and business revenues stemming from robust construction activity and growth in the overall economy, and property tax revenue growth limited to 1% on the base, plus adjustments for new construction and annexations.

Other economic factors considered when preparing the City's 2016 budget included:

- Overall economic activity is expected to be moderate.
- Population is expected to increase by 1% in 2016.
- The inflation rate (as measured by the June to June Seattle/Urban Consumer Price Index) is expected to remain low. The rate used for factors impacting the 2016 budget was 1.6%.

- Interest rates are expected to remain low through 2016. Even with the first 0.25% increase implemented in December 2015, expectations are for the Federal Reserve to continue to move slowly from its monetary policy.

Some of the specific steps taken to balance the 2016 budget include: raising the forecast for sales tax and construction related permit and fee revenues, increasing utility tax rates on solid waste and cable, implementing a 10% funding share on health benefits for the AFSCME, EPOA, EMPA and ATU labor unions, and prepaying reserve contributions from prior year carryforwards.

REQUESTS FOR FINANCIAL INFORMATION

This financial report is designed to provide our citizens, creditors, investors, and other interested parties with a general overview of the City's finances and to show the City's accountability for the financial resources it receives. If you have any questions about this report, or need additional financial information, please contact the Finance Department at 2930 Wetmore Avenue, Suite 9H, Everett, WA 98201

**STATEMENT OF NET POSTION
DECEMBER 31, 2015**

	Primary Government			Component Unit
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	EVERETT PUBLIC FACILITIES DISTRICT
ASSETS				
Cash and cash equivalents	\$ 23,385,724	\$ 25,031,288	\$ 48,417,012	\$ 969,572
Deposits with trustees	27,689	178,042	205,731	
Investments	89,208,845	81,660,117	170,868,962	
Receivables, net	58,203,926	11,784,325	69,988,251	784,074
Internal balances	6,873,764	(6,873,764)	-	
Inventories	422,072	1,114,057	1,536,129	
Prepayments	220,145	172,718	392,863	353,783
Net pension assets	28,593,180	-	28,593,180	
Restricted:				
Cash and cash equivalents	-	1,309,814	1,309,814	2,329,333
Special assessments	113,524	2,520	116,044	
Investment in joint venture	1,468,971	669,332	2,138,303	
Land	60,409,823	34,535,756	94,945,579	257,074
Construction in progress	2,425,922	76,483,606	78,909,528	
Capital assets, net (Note 6)	277,567,813	484,467,359	762,035,172	38,931,740
TOTAL ASSETS	\$ 548,921,398	\$ 710,535,170	\$ 1,259,456,568	\$ 43,625,576
DEFERRED OUTFLOWS OF RESOURCES				
Deferred charge on refunding	\$ -	\$ 1,582,286	\$ 1,582,286	\$ -
Deferred outflows related to pensions	6,471,824	3,156,946	9,628,770	
TOTAL DEFERRED OUTFLOWS OF RESOURCES	\$ 6,471,824	\$ 4,739,232	\$ 11,211,056	\$ -
COMBINED ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 555,393,222	\$ 715,274,402	\$ 1,270,667,624	\$ 43,625,576
LIABILITIES				
Accounts payable and other current liabilities	\$ 6,033,692	\$ 5,059,116	\$ 11,092,808	\$ 814,233
Unearned revenues	398,507	498,474	896,981	881,103
Net OPEB obligations	2,938,575	-	2,938,575	
Net Pension Liabilities	26,971,253	19,044,476	46,015,729	
Non-current liabilities (Note 12):				
Due within one year	10,673,719	12,763,848	23,437,567	1,285,000
Due in more than one year	61,840,117	228,697,418	290,537,535	48,449,941
TOTAL LIABILITIES	\$ 108,855,863	\$ 266,063,332	\$ 374,919,195	\$ 51,430,277
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows related to pensions	\$ 12,213,454	\$ 3,058,086	\$ 15,271,540	\$ -
COMBINED LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	\$ 121,069,317	\$ 269,121,418	\$ 390,190,735	\$ 51,430,277
NET POSITION				
Net Investment in capital assets	\$ 319,403,158	\$ 356,473,973	\$ 675,877,131	\$ (10,264,777)
Restricted for:				
Debt service	332,653	1,309,815	1,642,468	2,329,333
Public safety	9,115,928	-	9,115,928	
Transportation	6,183,303	-	6,183,303	
Parks and recreation	2,893,331	-	2,893,331	
Community development projects	14,776,125	-	14,776,125	
Tourism	457,376	-	457,376	
Economy	288,328	-	288,328	
Unrestricted	80,873,703	88,369,196	169,242,899	130,743
TOTAL NET POSITION	\$ 434,323,905	\$ 446,152,984	\$ 880,476,889	\$ (7,804,701)

The accompanying notes are an integral part of this statement.

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2015**

		PROGRAM REVENUES		
FUNCTIONS/PROGRAMS	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government services	\$ 15,229,252	\$ 3,173,121	\$ 1,134,991	\$ 28,283
Police	37,913,612	307,194	512,662	-
Fire	29,193,256	1,239,871	65,142	87,360
Engineering & construction services	3,323,810	689,717	59,291	-
Transportation	9,406,969	1,137,000	7,157	8,128,509
Community services	4,726,451	5,071,059	1,017,182	25,000
Library	4,861,685	88,595	66,807	468
Culture and recreation	13,224,113	1,861,864	33,575	1,360,821
Judicial	1,986,382	1,559,065	-	-
Social Services	959,126	3,443	10,969	-
Interest on long-term debt	454,240	-	-	-
Total governmental activities	121,278,896	15,130,929	2,907,776	9,630,441
Business-type activities:				
Water	29,304,814	37,360,006	-	1,535,105
Sewer	32,883,228	36,617,559	329,749	3,895,667
Solid waste	1,002,605	2,131,832	170,938	-
Parking	272,970	334,010	-	-
Transit	21,797,050	2,590,765	985,483	2,499
Golf	4,298,737	4,105,838	-	-
Total business-type activities	89,559,404	83,140,010	1,486,170	5,433,271
Total primary government	\$ 210,838,300	\$ 98,270,939	\$ 4,393,946	\$ 15,063,712
Component units:				
Everett Public Facilities District	\$ 11,425,022	\$ 8,704,058	\$ 2,825,360	\$ -

General revenues:

Property taxes
Sales taxes
Business taxes
Excise taxes
Allocation of state-imposed taxes
Sale of assets
Interest and investment earnings
Special items - see Note 18

Transfers

Total general revenues and transfers

Change in net position

Net position - beginning

Prior period adjustment

Change in accounting principal

Net position - beginning, as restated

Net position - ending

The accompanying notes are an integral part of this statement.

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2015**

NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION				
Primary Government			Component Unit	
Governmental Activities	Business-Type Activities	Total	Everett Public Facilities District	
\$ (10,892,857)	\$ -	\$ (10,892,857)		
(37,093,756)	-	(37,093,756)		
(27,800,883)	-	(27,800,883)		
(2,574,802)	-	(2,574,802)		
(134,303)	-	(134,303)		
1,386,790	-	1,386,790		
(4,705,815)	-	(4,705,815)		
(9,967,853)	-	(9,967,853)		
(427,317)	-	(427,317)		
(944,714)	-	(944,714)		
(454,240)	-	(454,240)		
(93,609,750)	-	(93,609,750)		
-	9,590,297	9,590,297		
-	7,959,747	7,959,747		
-	1,300,165	1,300,165		
-	61,040	61,040		
-	(18,218,303)	(18,218,303)		
-	(192,899)	(192,899)		
-	500,047	500,047		
\$ (93,609,750)	\$ 500,047	\$ (93,109,703)		
			\$ 104,396	
40,331,709	-	40,331,709		
28,725,134	18,327,232	47,052,366		
35,462,837	106,863	35,569,700		
6,787,004	-	6,787,004		
4,201,288	234,767	4,436,055		
41,843	784,274	826,117		
2,183,432	1,508,012	3,691,444		
3,496,900	-	3,496,900		
4,543,176	(4,543,176)	-		
125,773,323	16,417,972	142,191,295		
32,163,573	16,918,019	49,081,592		104,396
417,546,940	451,160,807	868,707,747		(7,927,172)
862,307	-	862,307		
(16,248,915)	(21,925,842)	(38,174,757)		
402,160,332	429,234,965	831,395,297		
\$ 434,323,905	\$ 446,152,984	\$ 880,476,889	\$ (7,822,776)	

The accompanying notes are an integral part of this statement.

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2015**

	GENERAL FUND	CAPITAL IMPROVEMENT RESERVE FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS				
Cash and cash equivalents	\$ 6,123,675	\$ 5,241,563	\$ 6,862,520	\$ 18,227,758
Change and imprest funds	48,549	-	-	48,549
Deposits with trustee	27,689	-	-	27,689
Investments	41,844,044	12,102,450	20,229,901	74,176,395
Receivables, net				
Taxes	11,500,933	224,077	224,077	11,949,087
Customer accounts	188,158	26,925	26,006	241,089
Interest	90,677	24,105	27,656	142,438
Due from other funds	22,274	-	-	22,274
Interfund receivable	183,100	23,640	1,313,500	1,520,240
Due from other governmental units	242,819	-	1,507,510	1,750,329
Due from component unit	27,780,941	6,514	-	27,787,455
Special assessments - non-current	-	-	113,524	113,524
Notes/contracts receivable	1,140,000	-	13,815,549	14,955,549
Advances to other funds	6,944,168	-	-	6,944,168
TOTAL ASSETS	\$ 96,137,027	\$ 17,649,274	\$ 44,120,243	\$ 157,906,544
LIABILITIES				
Wages payable	\$ 1,255,547	\$ -	\$ 139,865	\$ 1,395,412
Accounts payable	1,499,736	-	626,583	2,126,319
Due to other funds	1,325	-	23,490	24,815
Interfund payable	-	-	1,520,240	1,520,240
Due to other governmental units	141,152	-	34	141,186
Custodial accounts	714,510	-	-	714,510
Revenues collected in advance	62,108	-	245,798	307,906
Other liabilities	840,388	-	111	840,499
Unearned Revenue	-	-	90,602	90,602
TOTAL LIABILITIES	4,514,766	0	2,646,723	7,161,489
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenues-property taxes	2,217,331	-	-	2,217,331
Unavailable revenues-special assessments	-	-	113,524	113,524
Unavailable revenues-other	11,400	-	-	11,400
TOTAL DEFERRED INFLOWS OF RESOURCES	2,228,731	0	113,524	2,342,255
FUND BALANCES				
Nonspendable	35,865,109	6,514	-	35,871,623
Restricted	-	-	34,119,599	34,119,599
Committed	176,773	-	-	176,773
Assigned	-	17,642,760	7,264,036	24,906,796
Unassigned	53,351,648	-	(23,639)	53,328,009
TOTAL FUND BALANCES	89,393,530	17,649,274	41,359,996	148,402,800
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 96,137,027	\$ 17,649,274	\$ 44,120,243	\$ 157,906,544

The accompanying notes are an integral part of this statement.

**RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
DECEMBER 31, 2015**

Total Fund Balances reported on the Balance Sheet - Governmental Funds	\$ 148,402,800
Amounts reported for governmental activities in the Balance Sheet - Governmental Funds differ from amounts reported in the government-wide Statement of Net Position by the following items:	
Capital assets reported in the government-wide Statement of Net Position not reported in the Balance Sheet - Governmental Funds	338,833,962
Assets and liabilities of internal service funds included in governmental activities in the government-wide Statement of Net Position not reported in the Balance Sheet - Governmental Funds	6,097,777
Unearned revenues reported in the Balance Sheet - Governmental Funds not reported in the government-wide Statement of Net Position	2,342,254
Accrued receivables reported in the government-wide Statement of Net Position not reported in the Balance Sheet - Governmental Funds	2,326,911
Net investment in joint venture reported in the government-wide Statement of Net Position not reported in the Balance Sheet - Governmental Funds	1,468,971
Net pension asset and net OPEB liability reported in the government-wide Statement of Net Position not reported in the Balance Sheet - Governmental Funds	(352,987)
Discount on notes receivable reported in the government-wide Statement of Net Position not reported in the Balance Sheet - Governmental Funds	(1,057,756)
Accrued pollution remediation liability reported in the government-wide Statement of Net Position not reported in the Balance Sheet - Governmental Funds	(1,550,050)
Amounts related to the net pension liability - (GASB 68)	(3,644,409)
Long-term debt reported in the government-wide Statement of Net Position not reported in the Balance Sheet - Governmental Funds	(58,543,569)
Total Net Position reported on the government-wide Statement of Net Position	<u>\$ 434,323,905</u>

The accompanying notes are an integral part of this statement.

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015**

	GENERAL FUND	CAPITAL IMPROVEMENT RESERVE FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES				
Taxes	\$ 93,884,247	\$2,025,867	\$ 14,589,675	\$ 110,499,789
Licenses and permits	4,945,503	-	-	4,945,503
Intergovernmental revenues	3,033,349	-	13,211,387	16,244,736
Charges for services	10,183,820	-	2,171,893	12,355,713
Fines and forfeits	1,670,644	-	8,799	1,679,443
Other revenues	2,546,399	442,765	968,976	3,958,140
Total revenues	116,263,962	2,468,632	30,950,730	149,683,324
EXPENDITURES				
Current:				
General government services	27,611,840	-	595,181	28,207,021
Security of persons and property	59,173,882	-	9,008,270	68,182,152
Transportation	3,987,588	-	2,797,636	6,785,224
Economic environment	5,382,531	-	1,395,386	6,777,917
Mental and physical health	958,117	-	-	958,117
Culture and recreation	15,107,409	1,165,000	352,072	16,624,481
Capital outlay	4,259,074	-	17,622,168	21,881,242
Debt service:				
Principal	-	-	1,777,005	1,777,005
Interest	-	-	550,529	550,529
Total Expenditures	116,480,441	1,165,000	34,098,247	151,743,688
Excess (deficiency) of revenues over (under) expenditures	(216,479)	1,303,632	(3,147,517)	(2,060,364)
OTHER FINANCING SOURCES (USES)				
Issuance of long-term debt	-	-	1,169,444	1,169,444
Disposition of capital assets	36,618	-	4,320	40,938
Transfers in	5,624,824	4,391,965	9,771,130	19,787,919
Transfers out	(5,355,274)	(4,059,074)	(6,046,389)	(15,460,737)
Total other financing sources (uses)	306,168	332,891	4,898,505	5,537,564
Net change in fund balances	89,689	1,636,523	1,750,988	3,477,200
Fund balances - beginning	89,303,841	16,012,751	39,609,008	144,925,600
FUND BALANCES - ENDING	\$ 89,393,530	\$ 17,649,274	\$ 41,359,996	\$ 148,402,800

The accompanying notes are an integral part of this statement.

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2015**

Net change in fund balances for total governmental funds reported on the Statement of Revenues, Expenditures and Changes in Fund Balances	\$ 3,477,200
<p>Amounts reported for governmental activities in the Statement of Revenues, Expenditures and Changes in Fund Balances differ from amounts reported in the government-wide Statement of Activities by the following items:</p>	
Governmental funds report capital outlays as expenditures. Government-wide statements establish capital outlays as assets and allocate the cost of depreciable assets over their estimated useful lives as depreciation expense. This item represents the amount by which capital outlays exceeded (or, if negative, were less than) depreciation expense in the current period.	12,975,443
GASB 68 Adjustments	4,833,892
Increase (decrease) to the combined net pension asset and net OPEB liability on the government-wide statements during the current period.	4,412,656
Governmental funds report the proceeds from the issuance of long-term debt (e.g., bonds and leases) as revenues and the associated issuance costs as expense in the period the debt is issued. Government-wide statements report long-term debt as a liability and amortize issuance costs as expense over the life of the obligation. This item represents the net effect of these differences in the treatment of long-term debt and related items during the current period.	1,765,802
Internal service funds are used by management to charge the costs of fleet management, management information systems, self-insurance, employee health benefits, and telecommunications to individual funds. The net revenue (expense) of certain activities of internal service funds is reported with governmental activities.	1,283,777
Increase (decrease) to accrued receivables in the government-wide statements during the current period.	255,792
Fair value of capital assets donated to the City reported in the government-wide statements during the current period.	53,283
Increase (decrease) to notes and interest receivable on the government-wide statements during the current period.	22,774
Disposition of capital assets (i.e., sales, trade-ins and transfers) results in a decrease in capital assets reported in the government-wide statements during the current period.	(31,740)
Increase (decrease) to non-current unearned revenue on the Balance Sheet - Governmental Funds during the current period.	(100,576)
Increase (decrease) to investment in joint venture reported in the government-wide statements during the current period.	(281,629)
Change in net position of governmental activities reported on the government-wide Statement of Activities	<u>\$ 28,666,673</u>

The accompanying notes are an integral part of this statement.

**STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2015**

	BUSINESS TYPE ACTIVITIES				GOVERNMENTAL ACTIVITIES -
	WATER & SEWER UTILITY	TRANSIT	OTHER ENTERPRISE FUNDS	TOTAL	INTERNAL SERVICE FUNDS
CURRENT ASSETS					
Cash and cash equivalents	22,302,349	1,885,459	789,293	24,977,101	5,109,416
Deposits with Trustee	-	178,042	-	178,042	-
Investments	73,978,265	5,003,130	2,678,721	81,660,116	15,032,449
Restricted cash and cash equivalents	1,213,773	-	96,042	1,309,815	-
Receivables, net					
Taxes	-	3,343,028	-	3,343,028	-
Customer accounts	5,745,625	19,204	205,651	5,970,480	46,154
Interest	89,709	5,429	-	95,138	13,536
Due from other funds	-	37,426	-	37,426	-
Interfund loans	700,200	-	-	700,200	-
Due from other governments	1,429,637	781,553	164,486	2,375,676	49,145
Prepayments	-	-	-	-	220,145
Inventory	977,193	-	136,864	1,114,057	422,072
Total Current Assets	106,436,751	11,253,271	4,071,057	121,761,079	20,892,917
NONCURRENT ASSETS					
Restricted cash and cash equivalents	54,186	-	-	54,186	-
Prepayments	172,718	-	-	172,718	-
Special assessments	2,520	-	-	2,520	-
Investment in joint venture	669,332	-	-	669,332	-
Land	23,136,323	10,439,811	959,622	34,535,756	-
Construction in progress	68,324,661	234,061	7,924,884	76,483,606	-
Capital assets, net of depreciation (Note 6)	437,957,092	39,733,970	6,776,297	484,467,359	1,569,584
Total Noncurrent Assets	530,316,832	50,407,842	15,660,803	596,385,477	1,569,584
TOTAL ASSETS	636,753,583	61,661,113	19,731,860	718,146,556	22,462,501
DEFERRED OUTFLOWS OF RESOURCES					
Refunding of debt	1,582,286	-	-	1,582,286	-
Resources related to pensions	1,858,954	1,193,657	104,335	3,156,946	202,785
TOTAL DEFERRED OUTFLOWS OF RESOURCES	3,441,240	1,193,657	104,335	4,739,232	202,785
COMBINED ASSETS AND DEFERRED OUTFLOW OF RESOURCES					
	640,194,823	62,854,770	19,836,195	722,885,788	22,665,286
LIABILITIES					
CURRENT LIABILITIES					
Wages and benefits payable	1,134,252	605,889	42,096	1,782,237	141,347
Accounts payable	2,656,757	182,842	326,639	3,166,238	602,044
Claims and judgments payable	-	-	-	-	6,447,707
Interest payable	797,689	-	12,708	810,397	-
Taxes payable	132,799	3,069	8,242	144,110	2,079
Due to other funds	15,051	-	223	15,274	19,612
Interfund loans payable	-	-	700,200	700,200	-
Due to other governments	-	420,872	-	420,872	-
Unearned revenue	-	281,081	214,873	495,954	-
Current portion of long-term debt	10,491,479	-	1,002,012	11,493,491	-
Other current liabilities	-	-	-	-	108,818
Total Current Liabilities	15,228,027	1,493,753	2,306,993	19,028,773	7,321,607
NONCURRENT LIABILITIES					
Capital Leases Payable	8,783	-	-	8,783	-
General obligation bonds payable	-	-	3,006,876	3,006,876	-
Revenue bonds payable	192,272,421	-	-	192,272,421	-
Claims and judgments payable	-	-	-	-	5,876,822
Advances from other funds	-	-	6,944,168	6,944,168	-
Unearned revenue	2,520	-	-	2,520	-
Loans payable	32,343,233	-	-	32,343,233	-
Net pension liability	11,535,770	7,189,310	319,396	19,044,476	2,975,931
Other long-term liabilities	583,701	167,469	320,554	1,071,724	57,161
Total Noncurrent Liabilities	236,746,428	7,356,779	10,590,994	254,694,201	8,909,914
TOTAL LIABILITIES	251,974,455	8,850,532	12,897,987	273,722,974	16,231,521
DEFERRED INFLOWS OF RESOURCES					
Pension	1,814,194	1,158,628	85,264	3,058,086	287,736
TOTAL DEFERRED INFLOWS OF RESOURCES	1,814,194	1,158,628	85,264	3,058,086	287,736
COMBINED LIABILITIES AND DEFERRED INFLOW OF RESOURCES					
	253,788,649	10,009,160	12,983,251	276,781,060	16,519,257
NET POSITION					
Net Investment in Capital Assets	295,014,416	50,407,842	11,051,715	356,473,973	1,569,584
Restricted for debt service	1,213,773	-	96,042	1,309,815	-
Unrestricted	90,177,985	2,437,768	(4,294,813)	88,320,940	4,576,445
TOTAL NET POSITION	386,406,174	52,845,610	6,852,944	446,104,728	6,146,029

Amounts reported for business-type activities in the statement of net assets are different because:

The net effect of activities allocated from internal service funds is presented as an internal balance on the statement of net position.

Net position of business-type activities

48,256

\$ 446,152,984

The accompanying notes are an integral part of this statement.

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015**

	BUSINESS-TYPE ACTIVITIES				GOVERNMENTAL ACTIVITIES -
	WATER & SEWER UTILITY	TRANSIT	OTHER ENTERPRISE FUNDS	TOTAL	INTERNAL SERVICE FUNDS
OPERATING REVENUES:					
Admission taxes	\$ -	\$ -	\$ 106,863	\$ 106,863	\$ -
Charges for services	\$73,593,104	1,550,440	6,567,646	81,711,190	29,334,028
Rental revenues	-	913,835	-	913,835	-
Total Operating Revenues	73,593,104	2,464,275	6,674,509	82,731,888	29,334,028
OPERATING EXPENSES:					
Personnel services	19,618,534	11,782,080	1,068,995	32,469,609	2,369,110
Supplies	4,051,297	1,187,574	680,420	5,919,291	3,573,136
Professional services	5,504,461	1,292,061	1,844,467	8,640,989	15,142,665
Depreciation and amortization	13,501,233	2,883,876	839,742	17,224,851	464,427
Taxes	1,675,912	10,027	-	1,685,939	-
Other operating expenses	12,819,549	3,740,014	842,643	17,402,206	5,695,150
Total Operating Expenses	57,170,986	20,895,632	5,276,267	83,342,885	27,244,488
Operating Income (Loss)	16,422,118	(18,431,357)	1,398,242	(610,997)	2,089,540
NON-OPERATING REVENUES (EXPENSES):					
Sales tax	-	18,561,999	-	18,561,999	-
Intergovernmental revenues	329,749	982,983	170,938	1,483,670	-
Interest and investment revenue	1,114,643	119,063	78,327	1,312,033	324,793
Rent	556,335	40,287	-	596,622	-
Other non-operating revenues	242,294	23,201	-	265,495	275,707
Gain on Timber Sales	755,628	-	-	755,628	-
Gain (loss) on sale/retirement of assets	23,733	4,914	4,032	32,679	906
Interest expense	(6,170,076)	-	(298,047)	(6,468,123)	-
Other non-operating expenses	-	(1,524,253)	-	(1,524,253)	-
Total Non-Operating Revenues (Expenses)	(3,147,694)	18,208,194	(44,750)	15,015,750	601,406
Income (Loss) Before Contributions and Transfers	13,274,424	(223,163)	1,353,492	14,404,753	2,690,946
Capital contributions	5,430,772	2,499	-	5,433,271	-
Transfers in	25,000	4,000	-	29,000	295,000
Transfers out	(4,419,680)	(152,496)	-	(4,572,176)	(79,004)
CHANGE IN NET POSITION	14,310,516	(369,160)	1,353,492	15,294,848	2,906,942
NET POSITION - BEGINNING	385,380,384	61,495,662	5,859,676	452,735,722	6,710,406
Change in accounting principle	(13,284,726)	(8,280,892)	(360,224)	(21,925,842)	(3,471,319)
NET POSITION - ENDING	\$ 386,406,174	\$ 52,845,610	\$ 6,852,944	\$ 446,104,728	\$ 6,146,029

The difference between Increase in Net Position, and Change in Net Position for business-type funds is explained as follows:

Increase in Net Position, per above	\$ 15,294,848
The net revenue (expense) of certain activities of internal service funds associated with business-type activities.	1,623,171
Change in Net Position, per Statement of Activities	<u>\$ 16,918,019</u>

The accompanying notes are an integral part of this statement.

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015**

	BUSINESS-TYPE ACTIVITIES				GOVERNMENTAL ACTIVITIES -
	WATER & SEWER UTILITY	TRANSIT	OTHER ENTERPRISE FUNDS	TOTAL	INTERNAL SERVICE FUNDS
CASH FLOWS FROM OPERATING ACTIVITIES:					
Receipts from customers and users	\$ 74,125,523	\$ 2,500,724	\$ 6,765,528	\$ 83,391,775	\$ 708,511
Receipts from interfund services provided	1,182,163	-	-	1,182,163	28,578,718
Payments to suppliers	(18,921,638)	(1,444,577)	(3,020,415)	(23,386,630)	(20,448,649)
Payments to employees	(22,154,510)	(13,284,356)	(1,157,106)	(36,595,972)	(2,881,557)
Payments for interfund services used	(6,705,945)	(4,828,164)	(145,690)	(11,679,799)	(452,523)
Claims paid	-	-	-	-	(4,806,542)
Other receipts (payments)	229,356	(1,980,287)	-	(1,750,931)	245,109
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	27,754,949	(19,036,660)	2,442,317	11,160,606	943,067
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:					
Sales tax received	-	18,525,807	-	18,525,807	-
Receipts from non-capital grants	329,749	590,658	26,153	946,560	-
Interfund loans received	200,000	-	-	200,000	-
Principal paid on interfund loans	-	-	(90,000)	(90,000)	-
Interest paid on interfund loans	-	-	(132,997)	(132,997)	-
Transfers to other funds	(4,419,680)	(152,496)	-	(4,572,176)	(79,004)
Transfers from other funds	25,000	4,000	-	29,000	295,000
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	(3,864,931)	18,967,969	(196,844)	14,906,194	215,996
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Proceeds from capital debt	54,701,321	-	-	54,701,321	-
Principal paid on capital debt	(8,226,599)	-	(1,002,012)	(9,228,611)	-
Interest paid on capital debt	(6,723,706)	-	(180,488)	(6,904,194)	-
Principal paid on interfund loans	-	-	(300,000)	(300,000)	-
Receipts from capital grants	-	8,045	-	8,045	-
Proceeds from sale of capital assets	24,789	19,723	4,032	48,544	4,286
Proceeds from timber sales	755,628	-	-	755,628	-
Capital contributions	5,407,305	-	(1,047,461)	4,359,844	-
Acquisition and construction of capital assets	(45,630,492)	(206,399)	-	(45,836,891)	(446,058)
NET CASH PROVIDED (USED) BY CAPITAL FINANCING ACTIVITIES	308,246	(178,631)	(2,525,929)	(2,396,314)	(441,772)
CASH FLOWS FROM INVESTING ACTIVITIES:					
Proceeds from sale of investments	-	-	339,500	339,500	144,313
Purchase of investments	(26,634,549)	(537,988)	(544,429)	(27,716,966)	(2,617,359)
Investment income	1,233,485	105,812	78,041	1,417,338	300,028
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	(25,401,064)	(432,176)	(126,888)	(25,960,128)	(2,173,018)
Net Increase (Decrease) in Cash and Cash Equivalents	(1,202,800)	(679,498)	(407,344)	(2,289,642)	(1,455,727)
Cash and Cash Equivalents, January 1	24,773,108	2,742,999	1,292,679	28,808,786	6,565,143
CASH AND CASH EQUIVALENTS, DECEMBER 31	\$ 23,570,308	\$ 2,063,501	\$ 885,335	\$ 26,519,144	\$ 5,109,416
Current Cash and Cash Equivalents	\$ 22,302,349	\$ 2,063,501	\$ 789,293	\$ 25,155,143	\$ 5,109,416
Restricted Cash and Cash Equivalents	1,267,959	-	96,042	1,364,001	-
CASH AND CASH EQUIVALENTS, DECEMBER 31	\$ 23,570,308	\$ 2,063,501	\$ 885,335	\$ 26,519,144	\$ 5,109,416

The accompanying notes are an integral part of this statement.

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015**

	BUSINESS-TYPE ACTIVITIES				GOVERNMENTAL ACTIVITIES -	
	WATER & SEWER UTILITY	TRANSIT	OTHER ENTERPRISE FUNDS	TOTAL	INTERNAL SERVICE FUNDS	
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:						
Operating income (loss)	\$ 16,422,118	(18,431,357)	\$ 1,398,242	\$ (610,997)	\$ 2,089,540	
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:						
Depreciation and amortization	13,501,233	2,883,876	839,742	- 17,224,851	464,428	
Other non-operating receipts	798,629	63,486	-	- 862,115	275,707	
Other non-operating disbursements	-	(1,876,354)	-	- (1,876,354)	-	
GASB 68 pension expense adjustments	(1,793,716)	(1,126,611)	(59,899)	- (2,980,226)	(410,437)	
Change in Assets and Liabilities:						
(Increase) decrease in inventories	31,763	-	(6,577)	- 25,186	17,439	
(Increase) decrease in receivables	1,148,997	(169,673)	75,083	- 1,054,407	(77,398)	
(Increase) decrease in prepaid expenses	11,607	-	-	- 11,607	47,081	
Increase (decrease) in accounts and other payables	(2,343,865)	(426,051)	176,337	- (2,593,579)	(1,330,578)	
Increase (decrease) in compensated absences	(21,817)	39,242	3,437	- 20,862	(132,715)	
Increase (decrease) in other current liabilities	-	6,782	15,952	- 22,734	-	
TOTAL ADJUSTMENTS	11,332,831	(605,303)	1,044,075	11,771,603	(1,146,473)	
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 27,754,949	\$ (19,036,660)	\$ 2,442,317	\$ 11,160,606	\$ 943,067	
SCHEDULE OF NON-CASH CAPITAL AND RELATED FINANCING ACTIVITIES:						
Non-Cash Financing, Capital and Investing Activities:						
Capital assets contributed by private developers	\$ 904,513	\$ -	\$ -	\$ 904,513	\$ -	
Capital assets contributed by annexation	87,106	-	-	87,106	-	
Increase (decrease) in fair value of investments	44,591	9,772	5,692	60,055	24,626	
Capital grants earned, not received	-	-	164,486	164,486	-	
Operating grants earned, not received	-	514,396	-	514,396	-	
TOTAL NON-CASH ACTIVITIES	\$ 1,036,210	\$ 524,168	\$ 170,178	\$ 1,730,556	\$ 24,626	

The accompanying notes are an integral part of this statement.

**STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
DECEMBER 31, 2015**

	TRUST FUNDS	AGENCY FUNDS
ASSETS		
Cash and cash equivalents	\$ 1,533,728	\$ 179,585
Agency Bonds	45,710,126	-
Accounts receivable - net	1,761	17,944
Interest receivable	8,379	-
TOTAL ASSETS	47,253,994	197,529
LIABILITIES		
Accounts payable	13,715	3,155
Other current liabilities	-	194,374
TOTAL LIABILITIES	13,715	197,529
NET POSITION		
Net Position restricted for pensions	15,443,883	-
Net Position restricted for post employment benefits	31,796,396	-
Total held in trust	\$ 47,240,279	\$ -

The accompanying notes are an integral part of this statement.

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015**

	TRUST FUNDS
ADDITIONS:	
Contributions	
Employer	\$ 5,550,788
State	164,527
Total contributions	<u>5,715,315</u>
Investment income	
Interest	1,086,640
Net appreciation (depreciation) in fair value	300,968
Net investment income	<u>1,387,608</u>
TOTAL ADDITIONS	<u>7,102,923</u>
DEDUCTIONS:	
Benefits	3,133,318
Administrative expense	29,708
TOTAL DEDUCTIONS	<u>3,163,026</u>
CHANGE IN NET POSITION	
Pension benefits	2,874,465
Postemployment healthcare benefits	1,065,432
NET POSITION RESTRICTED FOR EMPLOYEES' PENSION BENEFITS	
Employees' pension benefits, January 1	12,569,418
NET POSITION RESTRICTED FOR POSTEMPLOYMENT HEALTHCARE BENEFITS	
Postemployment healthcare benefits, January 1	30,730,964
NET POSITION - ENDING	<u>\$ 47,240,279</u>

The accompanying notes are an integral part of this statement.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Everett are 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. Significant accounting policies are described below.

A. REPORTING ENTITY

The City of Everett was incorporated on May 4, 1893. The City operates under a Mayor-Council form of government, and, under its charter, has all powers granted to like cities by the constitution and laws of the state. The City is a general-purpose government providing police, fire, emergency medical service, water distribution, sewage collection and treatment, transit services, street maintenance, planning and zoning, libraries, parks and recreation, and general administrative services - the full range of municipal services contemplated by statute or charter.

As required by generally accepted accounting principles, the City of Everett includes all governmental activities, organizations, and functions (referred to in this note as "organizations," whether they are structured as funds, departments, agencies, boards, or commissions) for which the City of Everett is financially accountable.

Also included are other organizations for which the nature and significance of their relationship with the City of Everett are such that exclusion would cause the City's financial statements to be misleading or incomplete. The City of Everett is financially accountable for other entities if it appoints a voting majority of the governing body and 1) it is able to impose its will on the organization or 2) there is a potential for the organization to provide specific financial benefits to or impose specific financial burdens on the City.

Each blended and discretely presented component unit has a December 31 year-end.

Blended Component Units – Although legally separate entities, blended component units are, in substance, part of the government's operations. Therefore, data from these units are combined with data of the primary government.

The **Industrial Development Corporation (IDC)** of the City of Everett, a public nonprofit corporation, is authorized to facilitate the issuance of tax-exempt nonrecourse revenue bonds to finance industrial development within the corporate boundaries of the City. The local government, through the public corporation, is simply lending its name to confer tax-exempt status on the bonds issued. Neither the local government, the public corporation, nor the state government pledges its credit to repayment of the bonds. The funds for repayment of the bonds come from private lenders and must be repaid by the company for which the industrial development facilities are financed and built. Currently, there are no outstanding bonds.

The entire IDC's governing body is comprised of City council members and the mayor, who serves ex officio. As a result, the City has the ability to affect the organization's operation. The IDC's account balances and transactions are included in the City's financial statements as a special revenue fund. The transactions, if any, are minimal; therefore, separate financial statements have not been issued.

The **City of Everett CDE LLC**, a community development entity (CDE) formed by the city in February 2009, is a separate legal entity whose purpose is to help alleviate poverty and incentivize investment into low income community census tracts. The Everett CDE LLC applied for New Market Tax Credits (NMTC) in April of 2009. In October 2009, the US Treasury Department awarded \$25 million in NMTC to City of Everett CDE LLC.

The City of Everett CDE LLC is wholly owned and controlled by the City. The volunteer board members, who are appointed by the mayor and approved by City Council, serve solely in an advisory capacity. The CDE's account balances and transactions are included in the City's financial statements as a special revenue fund.

Discretely Presented Component Unit – The discretely presented component unit is reported in a separate column in the combined financial statements to emphasize that it is legally separate from the government.

The **Everett Public Facilities District (PFD)**, a municipal corporation of the State of Washington, was established by City ordinance in March 2001, to finance, design, construct, operate, and maintain a special events center. The PFD is included in the City's reporting entity as a discretely presented component unit because of the financial accountability relationship. The Board of Directors consists of five members, all appointed by the Everett City Council.

In October 2014, the City issued Limited Tax General Obligation (LTGO) Refunding Bonds, a portion of which was used to refund the **2007 Variable Rate Project Revenue Bonds** issued by the PFD. The PFD portion is referred to as the 2014 PFD Refunding Bonds. The City is responsible for the debt service on the entire 2014 LTGO Refunding Bonds. The PFD agrees to reimburse the City the amount of principal and interest paid on the 2014 PFD Refunding Bonds. As of December 31, 2015, the outstanding 2014 PFD Refunding Bonds balance was \$27,787,455. As of December 31, 2015, the PFD had outstanding **2007 Fixed Rate Limited Sales Tax and Interlocal Revenue Bond** debt of \$20,365,000. Payments for the PFD's 2007 debt are expected to be made from PFD tax revenues and net project revenues. Complete financial statements may be obtained at the PFD administrative offices at 2000 Hewitt Avenue, Suite 200, Everett, Washington 98201.

B. IMPLEMENTATION OF NEW ACCOUNTING PRINCIPLES

Effective January 1, 2015, the City adopted the provisions of GASB Statement No. 68, Accounting and Financial Reporting for Pensions, and Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date. The objective of these statements is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This resulted in a net decrease to beginning net position of \$38,174,757.

C. 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 primary government and its component units. 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. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Additionally, the City's accounting system automatically allocates a portion of its indirect costs to individual functions. These indirect costs have been included as part of the program expenses reported for the various functional activities. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported 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.

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

The government-wide financial statements are reported using the economic resources measurement focus and 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 compensated absences and claims and judgments, are recorded only when payment is due. Long-term receivables are presented in the Governmental Funds balance sheets, along with a nonspendable fund balance by an equal amount.

Several major revenue sources associated with the current period are considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. These major revenues include property taxes; business and occupation taxes; real estate excise taxes; sales tax; natural gas, telephone, and electric taxes; licenses; and interest. Only the portion of special assessment receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

- The general fund is the City's operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The capital improvement reserve fund, which is a special revenue fund, accounts for the activity and reserves associated with community, recreational and public safety improvements. The major funding sources for this fund include real estate excise tax, general fund contributions, rental income, and interest earnings.

The City reports the following major proprietary funds:

- The water and sewer utility fund accounts for the distribution and filtration of water, the collection and treatment of wastewater, the collection and treatment of sewage, and for surface water management.
- The transit fund accounts for public transit transportation services, including van service for the elderly and persons with disabilities and a commute trip reduction program. The transit fund also accounts for the operation of Everett Station.

Additionally, the City reports the following fund types:

- Internal service funds account for the City's self-insured medical and chiropractic health benefits, general liability, workers' compensation, and property insurance coverage, fleet management services, telecommunication services, and information technology services provided to other departments on a cost reimbursement basis.
- Pension trust funds account for the activities of the police and fire pension funds, which accumulate resources for pension benefit payments and post-employment health care benefits to qualified public safety employees.
- Agency funds are custodial in nature (assets equal liabilities) and do not measure the results of operations. The City uses an agency fund to account for the Downtown Business Improvement Area, the Snohomish County Police Staff and Auxiliary Service Center (SNOPAC), and the Tulalip Water Delivery System.

As a general rule, the effect of interfund activity has been eliminated for the government-wide financial statements. Exceptions to this general rule are charges between the government's water and sewer functions and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned. The City has allocated certain indirect costs that are included in the program expense reported for individual functions and activities.

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. All taxes are considered general revenues.

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 Utilities Fund, Solid Waste Utility Fund, Transit Fund, Parking Garage Fund, Golf Fund, and the internal service funds are charges to customers for sales and 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 nonoperating revenues and expenses.

E. ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION/FUND BALANCE

Cash and Cash Equivalents

It is the City's policy to invest all temporary cash surpluses. These investments are reported in the balance sheets as cash and cash equivalents. Cash and cash equivalents are defined as cash on hand, demand deposits, and all highly liquid investments, including restricted assets, with original maturities of three months or less. The interest on these investments is prorated to the applicable funds.

Investments – See Note 4.

Receivables

Taxes receivable consist of property taxes and related interest and penalties, electric taxes, telephone taxes, B&O taxes, natural gas use taxes, and sales taxes. 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. Interest receivable consists of amounts earned on investments, notes, and contracts at the end of the year. Notes and contracts receivable consist of amounts loaned to private individuals or organizations primarily in conjunction with the Community Home Improvement Program or the Community Development Block Grant Program. Special assessments receivable, which are recorded when the special assessment is levied, consist of current and delinquent assessments and related interest and penalties.

Amounts Due to and from Other Funds, Interfund Loans, and Advances

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “interfund loans receivable/payable” or “advances to/from other funds.” All other outstanding balances between funds are reported as “due to/from other funds.” Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.” Separate schedules of interfund loans, advances and amounts due to and from other funds are presented in Note 14.

Advances to other funds, as reported in the fund financial statements, are offset by a nonspendable fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

Amounts Due to and from Other Governmental Units

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

Inventories and Prepayments

Inventories of proprietary funds are valued using the weighted average cost method for Utilities and Golf, and the moving average cost method for the Equipment Rental Fund. Inventories of the governmental fund are recorded as expenditures when purchased.

Certain payments made in the current period reflect costs applicable to future accounting periods. These amounts are reported as “prepayments” in both the government-wide and fund financial statements. Prepaid items are reported using the consumption method and recorded as an expense or expenditure at the time of consumption.

Restricted Assets and Liabilities

Constraints imposed by debt covenants and laws and regulations of other governments require that the City maintain cash accounts, investments and receivables for certain purposes. These accounts contain resources for construction, escrow requirements and debt service.

Restricted assets of governmental activities include the following:

Hotel/Motel Tax	\$ 457,376
Parks Construction	123,055
Parks Reserve	1,649,723
Animal Shelter	288,328
Real Estate Excise Tax	3,561,925
Criminal Justice	9,065,428
Traffic Mitigation	3,747,896
Transportation Benefit District	449,743
Community Development Block Grants	723,430
CHIP Loans receivable	14,052,695
	<u>\$ 34,119,599</u>

Restricted assets of business-type activities include the following:

Revenue bond debt service accounts	\$ 1,309,815
Escrow required by Snohomish County Health District	54,186
Total	<u>\$ 1,364,001</u>

Capital Assets and Depreciation - See Note 6.

Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused sick leave and vacation benefits.

Employees may accumulate a maximum of between 960 and 1,176 hours of sick leave, depending upon the collective bargaining unit agreement or City ordinance that applies to them. Upon separation from City employment, eligible employees will be compensated between 0 and 520 hours of their sick leave balance, depending upon the applicable collective bargaining agreement or City ordinance.

A long-term liability for a portion of accumulated sick leave is recorded in the government-wide and proprietary fund financial statements using the vesting method. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations or retirements.

Eligible employees may accumulate a maximum of between 384 and 448 hours of vacation leave in accordance with the applicable collective bargaining agreement or City ordinance but may not accumulate more than two full years of earned vacation. At the time of retirement or separation from the City, eligible employees will be compensated for a maximum of 240 to 448 hours of their accrued vacation balance, again depending on the applicable collective bargaining agreement or City ordinance.

All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. This represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (as either an expense or expenditure) until that period. The City has two items that qualify for reporting in the statement of net position: deferred gains on refunding and deferred outflows related to pension. A deferred gain on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The deferred outflows related to pensions consist of contributions to the State of Washington pension plans from July 1 to December 1 of the current fiscal year, the difference between expected and actual experience, changes in assumptions, and changes in proportionate share. Changes in proportionate share are deferred and amortized over the average remaining expected service lives of all employees in the plans.

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. This represents an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that period. The City has four items at the fund level that qualify for reporting in this category: (1) Unavailable property taxes recorded as receivables, (2) unavailable special assessments recorded as non-current receivable, (3) unavailable interest revenue relating to loans, and (4) deferred inflows related to pensions. Items (1) – (3) are accrued at the entity-wide level and are no longer deferred inflows of resources.

Pensions

For purposes of measuring the net pension liability, deferred outflow of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the City's proportionate share of all state sponsored pension plans in which the City participates (See Note 7) and additions to/deductions from those plans' fiduciary net positions have been determined on the same basis as they are reported by the Washington State Department of Retirement Systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

For purposes of measuring the net pension liability, deferred outflow of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the City's Police and Fire pension plans and additions to/deductions from the plan fiduciary net positions have been determined on the same basis as they are reported by the plans. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Short-term Debt

Debt with a term of one year or less at time of issue is considered short-term debt. The City did not issue short-term debt during 2015.

Long-term Debt

In the fund financial statements of proprietary fund types and in the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Bond insurance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Detailed information on long-term debt outstanding at year-end is presented in Note 10 and Note 12.

Other accrued liabilities

These accounts include accrued employee benefits, customer deposits, and pollution remediation liabilities.

Fund Balances

The components for reporting the City's governmental fund balances are nonspendable, restricted, committed, assigned and unassigned. Nonspendable fund balance cannot be spent because it is either not in spendable form, such as inventory or prepaid expense, or is legally or contractually required to remain intact. Restricted fund balance includes amounts of which the use is subject to constraints imposed by external parties, including creditors, grantors, and laws and regulations of other governments. Committed fund balance includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the City Council, which is the government's highest level of decision making authority. Fund balance commitments are established, modified, or rescinded by City Council action through adoption of an ordinance. Assigned fund balance includes amounts that have an intended use established by the City Council or Administration; however, little or no formal action is required to modify intended use. Unassigned fund balance represents residual net resources.

The City considers restricted amounts to be spent when an expenditure is incurred for which both restricted and unrestricted fund balance are available. The City does not have a formal policy for the use of unrestricted fund balance amounts; therefore, it considers committed amounts used first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for which amounts in any of unrestricted fund balance classifications could be used.

On February 17, 1993, City Council adopted Ordinance 1928-93 which established a Contingency Reserve Fund. Per the ordinance, funds in the Contingency Reserve Fund can only be expended upon consensus agreement between Administration and City Council. Such expenditures can only be used when extraordinary needs arise that require immediate budget attention. Examples include natural and man-made disasters, civic unrest, and severe economic downturns. The balance in the Contingency Reserve Fund at December 31, 2015 was \$4.1 million and is included in the unassigned fund balance of the General Fund. The City maintains a formal policy that fund balance in the General Fund be at least 20 percent of operating revenues.

Fund balances by classification for the year ended December 31, 2015 were as follows:

Fund Balances	General Fund	Capital Improvement Reserved Fund	Other Governmental Funds	Total Governmental Funds
Nonspendable:				
Long Term Loans	\$ 28,920,941	\$ 6,514	\$ -	\$ 28,927,455
Advances to Other Funds	6,944,168	-	-	6,944,168
Restricted for:				
Tourism Advertising	-	-	457,376	457,376
Everett TV Equipments Replacement	-	-	1,649,723	1,649,723
Animal Shelter Operation	-	-	288,328	288,328
Parks Capital Constructions	-	-	1,243,608	1,243,608
Streets Capital Constructions	-	-	2,435,407	2,435,407
Capital Projects Debt Services	-	-	332,653	332,653
Policing	-	-	9,115,928	9,115,928
Traffic Improvement Projects	-	-	3,747,896	3,747,896
CHIP Loans	-	-	14,776,125	14,776,125
Parks Capital Construction	-	-	123,055	
Committed to:				
1% for Arts Projects	176,773	-	-	176,773
Assigned to :				
Capital Projects	-	8,129,134	-	8,129,134
City Debt Service	-	9,513,626	28,861	9,542,487
Riverfront Capital Project	-	-	326,371	326,371
City Streets Improvements	-	-	3,591,891	3,591,891
Parks & Recreation Maintainance	-	-	664,737	664,737
Animal Shetler Operation	-	-	126,751	126,751
Library Books	-	-	129,638	129,638
Library Misc. Operation	-	-	69,620	69,620
EMS	-	-	1,559,191	1,559,191
Policing	-	-	27,834	27,834
Community Redevelopment	-	-	7,714	7,714
City Roads Safety & Improvements	-	-	506,928	506,928
Parks Capital Construction	-	-	224,500	224,500
Unassigned:	<u>53,351,648</u>	<u>-</u>	<u>(23,639)</u>	<u>53,328,009</u>
Total Fund Balances	<u>\$ 89,393,530</u>	<u>\$ 17,649,274</u>	<u>\$ 41,410,496</u>	<u>\$ 148,453,300</u>

At December 31, 2015 the non major governmental funds included a deficit unassigned fund balance of \$23,639.

The deficit balance occurred in the City Facilities Construction Fund - a Capital Project Fund.

Expenditures exceeded the resources; therefore, the negative residual amount is classified as a deficit unassigned fund balance.

NOTE 2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

- **Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net position.**

The governmental funds balance sheet includes reconciliation between Total Fund Balances – Governmental Funds and Total Net Position-Governmental Activities as reported in the government-wide statement of net position. Certain items in the reconciliation are a combination of items reported at net. These items are detailed as follows:

Governmental balance sheets reconciliation

Capital assets not reported in total governmental funds:

Cost of capital assets	\$483,463,912
Accumulated depreciation	<u>(144,629,950)</u>

Net adjustment to increase total fund balances of governmental funds to arrive at net position of governmental activities.

\$ 338,833,962

Long-term debt not reported in total governmental funds:

Debt proceeds	\$ (35,040,000)
Bonds payable	(13,385,400)
Compensated absences accrued	(9,276,982)
Unamortized balance of bond premiums	(774,193)
Accrued interest payable	<u>(66,993)</u>

Net adjustment to reduce total fund balances of government funds to arrive at net position of governmental activities

\$ (58,543,568)

Internal service funds reported separately with business-type funds:

Internal service funds - total fund equity	\$ 6,146,029
Amount allocated to internal balances - business-type activities	<u>(48,252)</u>

Net adjustment to increase total fund balances of governmental funds to arrive at net position of governmental activities.

\$ 6,097,777

- **Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities.**

The governmental fund statement of revenues, expenditures, and changes in fund balances includes reconciliation between Net changes in fund balances-Total Governmental Funds and Change in net position-Governmental Activities as reported in the government-wide statement of activities. Certain items in the reconciliation are a combination of items reported at net. These items are detailed as follows:

Governmental revenues/expenditures reconciliation

The net effect of various miscellaneous transactions involving capital assets:

Book value of disposed assets:	
Cost of government-type capital assets disposed	\$ (1,406,836)
Accumulated depreciation of disposed assets	<u>1,375,096</u>
Net adjustment to increase (reduce) net change in fund balances-total governmental funds to arrive at change in net position of governmental activities	<u>\$ (31,740)</u>

The amount by which depreciation exceeds capital outlays in the current period:

Expenditures that are capitalized	\$ 22,762,442
Current depreciation expense	<u>(9,786,999)</u>
Net adjustment to increase (reduce) net change in fund balance-total governmental funds to arrive at change in net position of governmental activities	<u>\$ 12,975,443</u>

The net effect of the differences in the treatment of long-term debt and related items:

Proceeds of long-term debt	\$ (1,169,444)
Principal payments on long-term debt	1,777,005
Decrease (increase) in interest payable	19,867
Decrease (increase) in compensated absences liability	1,067,993
Amortization of bond premium	<u>70,381</u>
Net adjustment to increase (reduce) net change in fund balances-total governmental funds to arrive at change in net position of governmental activities	<u>\$ 1,765,802</u>

The net revenue (expense) of certain activities of internal service funds:

Interest revenue allocated from internal service funds to governmental activities	\$ 128,813
Net expense allocated from internal service funds to governmental activities	938,063
Interfund transfers out	<u>216,901</u>
Net adjustment to reduce net change in fund balances-total governmental funds to arrive at change in net position of governmental activities	<u>\$ 1,283,777</u>

NOTE 3 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budget

Scope of Budget

Annual appropriated budgets are adopted for the general fund, special revenue funds, and debt service funds, on a basis consistent with generally accepted accounting principles. Budget-to-actual comparison schedules are presented for these funds.

Annual appropriated budgets are also adopted for the proprietary funds; however, they are “management budgets” and are not required to be presented in these statements. Budgets for capital project funds are adopted at the individual-project level and for fiscal periods that correspond to the projects. Because these funds are not budgeted on an annual basis, budgetary comparisons are not presented.

Legal budgetary control is established at the fund level. Subsidiary revenue and expenditure ledgers are used to compare the budgeted amounts with actual revenues and expenditures. As a management control device, the subsidiary ledgers are used to monitor expenditures for individual functions and activities by object class. Annual appropriations for all funds lapse at year-end.

Amending the Budget

The Mayor is authorized to transfer appropriations between programs within any fund; however, any revisions that alter the total expenditures of a fund must be approved by the City Council. When City Council determines that it is in the best interest of the City to increase or decrease the appropriation for a particular fund, it may do so by ordinance approved by one more than the majority after holding public hearings. The budget was amended by ordinance three times in 2015.

The financial statements contain the original and final budget information. 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.

Compliance

As of December 31, 2015, the following funds reported deficits in fund balance or net position:

Fund 342 – City Facilities Construction Fund had a deficit net position of \$23,639. This deficit will be eliminated by transfer from Fund 162 – Capital Projects Reserve.

Fund 440 – Golf Fund had a deficit net position of \$4,004,448. To eliminate the deficit, the City continues elements of its business plan to increase revenue and decrease expenses.

Fund 501 – Motor Vehicle Fund had a deficit net position of \$519,741. The deficit was due to applying the accounting principle changes of GASB 68. Future increase of interfund assessments should help in eliminating this deficit.

Fund 507 – Telecommunications Fund had a deficit net position of \$578,463. The deficit was due to applying the accounting principle changes of GASB 68. Future increase of interfund assessments should help in eliminating this deficit.

There were no other material violations of finance-related legal or contractual provisions in any of the funds of the City.

NOTE 4 – DEPOSITS AND INVESTMENTS

Deposits

The City's deposits and certificates of deposit are entirely covered by the Federal Depository Insurance Corporation (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

Investments

As required by state law, all investments of the City's funds are obligations of the U.S. Government, U.S. agency issues, obligations of the State of Washington, the State of Washington Local Government Investment Pool, Bankers' Acceptances or certificates of deposit with Washington State Banks that are approved by the Washington State Protection Commission (PDPC) to accept public funds.

The Washington Local Government Investment Pool (LGIP) is an unrated investment pool that operates in a manner consistent with the SEC's Rule 2a-7 of the Investment Company Act of 1940. The fair value of the portfolio is calculated by the master custodian or by an independent pricing service under contract with the State Treasurer's Office. The fair value of the City's position in the State of Washington Local Government Investment Pool is the same as the value of the pool shares.

All Fire and Police Pension Fund investments are purchased through and held by RBC Wealth Management, a division of RBC Capital Markets, LLC, member NYSE/FINRA/SIPC (New York Stock Exchange/Financial Industry Regulatory Authority/Securities Investor Protection Corporation). Fire and Police Pension assets are protected by the SIPC up to \$500,000 per account (of which \$250,000 may be cash). RBC Wealth Management has an additional policy which provides up to an additional \$99.5 million per SIPC qualified account (of which \$900,000 may be cash) subject to a total maximum aggregate of \$400 million. Neither SIPC protection, nor protection in excess of that provided by SIPC, covers a decline in the value of customer's assets due to market loss.

As of December 31, 2015, the City had the following investments and maturities:

		MATURITIES			
INVESTMENT TYPE	FAIR VALUE	LESS THAN A YEAR	1 - 3 YEARS	4 - 7 YEARS	7 TO 10 YEARS
Agencies:					
FFCB	38,868,948	-	28,667,706	10,201,242	-
FHLB	37,996,916	-	10,860,636	27,136,280	-
FHLMC	54,397,897	3,024,150	37,166,133	10,193,174	4,014,440
FNMA	41,976,030	4,075,800	19,487,014	17,417,907	995,310
Certificate of Deposit:					
Opus Bank CD	3,000,000	3,000,000	-	-	-
Total Investments	176,239,792	10,099,950	96,181,489	64,948,603	5,009,750
Deposits:					
State Pool	40,607,053	40,607,053			
Deposit Account - Opus Bank	6,424,986	6,424,986			
Total Deposits	47,032,038	47,032,038			
TOTAL INVESTMENTS & DEPOSITS	223,271,830	57,131,988	96,181,489	64,948,603	5,009,750

Interest Rate Risk

As a means of limiting its exposure to interest rate risk, the City's policy requires that it diversify its investments by security type and institutions, and limits holdings in any one type of investment with any one issuer. The City coordinates its investment maturities to closely match cash flow needs and restricts the maximum investment term to less than ten years from the purchase date.

The LGIP is an un-rated 2a-7 like pool, as defined by GASB Statement No. 31. The weighted average maturity of the LGIP portfolio does not exceed 90 days.

Credit Risk

Safety of principal is the foremost objective of the City's investment program. City investments are undertaken in a conservative manner that seeks to ensure the preservation of the portfolio's capital. The City holds investments in US Treasuries and Government Agencies, all of which hold AAA ratings from Standard & Poor's and Aaa from Moody's Investor Services.

Concentration of Credit Risk

The City's Investment Policy limits investment in any one US Government Agency issuer to no more than 70 percent of the portfolio value, and other government obligations, repurchase agreements, bankers' acceptances, certificates of deposit, and savings or time deposits in any one issuer to no more than 10 percent. There is no restriction on the City's percentage of investment in Treasuries or the State Investment Pool.

Custodial Credit Risk for Cash Deposits

In accordance with state law and the city's Investment Policy, all cash deposits are held in banks that are authorized by the PDPC to accept public deposits. In order to receive and maintain PDPC approval, banks must collateralize all uninsured public deposits at 100 percent.

Interest Allocation

Interest earnings are distributed monthly among funds based on average cash balances. However, in certain cases where a fund's resources derive from another fund, investment income is reported in the fund that is providing the resources rather than the fund that reports the underlying investment. These special distributions include the following:

Fund Reporting Investment	Fund Receiving Investment Income
Fund 115 - Special Projects	Fund 002 - General Fund
Fund 160 - Rainy Day Fund	Fund 002 - General Fund
Fund 162 - Capital Improvement Fund - CIP 4	Fund 002 - General Fund
Fund 342 - City Facilities Construction Fund	Fund 002 - General Fund
Fund 354 - Parks CIP 3 Construction Fund	Fund 154 - Real Estate Excise Tax Fund

NOTE 5 - PROPERTY TAXES

The Snohomish County Treasurer acts as an agent to collect property taxes levied in the county for all taxing authorities. Properties listed on the County tax rolls as of May 31 are included in the annual tax levy the following January 1. New construction through August 31 is included in the annual tax levy the following January 1.

Property taxes levied by the County Assessor are based on 100% of market value. The taxes are collected by the County Treasurer and become a lien on the first day of the levy year and may be paid in two equal installments if the total amount exceeds \$50. The first half of real property taxes is due April 30 and the balance is due October 31. Delinquent taxes bear interest at the rate of 12% and are subject to additional penalties of 3% to 11% if not paid as scheduled.

Property tax revenues are recognized in the year levied. At year-end, property tax revenues are recognized for collections to be distributed by the County Treasurer within sixty days and an adjustment to taxes receivable and deferred inflows of resources to account for delinquent taxes. No allowance for uncollectible taxes is established because delinquent taxes are considered fully collectible.

The tax rate for general City operations is limited by State law (RCW 84.52.043) to \$3.375 per \$1,000 of assessed value. An additional amount, up to \$0.225, may be levied as a contribution to the Firemen's Pension Fund if a report by a qualified actuary indicates that additional funds are required. The City maintains a Firemen's Pension Fund; thus the limit is \$3.600. This amount may be reduced for any of the following reasons:

- (1) **RCW 84.52.050** limits the total regular property taxes to one percent of assessed valuation or \$10 per \$1,000 of value. If the taxes of all districts exceed this amount, each is proportionately reduced until the total is at or below the one percent limit.

- (2) **Initiative 747** passed by the voters in November of 2001 limits the amount by which a taxing jurisdiction can increase the amount of its regular property tax levy to the lesser of the Implicit Price Deflator (IPD) or one percent, plus adjustments for new construction and annexations. Tax increases higher than one percent must be approved by the voters at an election held according to RCW 84.55.050. A simple majority vote is required.

For 2015, the City levied the following property taxes on an assessed value of \$12,519,157,882. The special levies identified in the table were approved by the voters and are not subject to the limitations listed above.

PURPOSE OF LEVY	LEVY RATE PER \$1,000	TOTAL LEVY AMOUNT
General government	\$2.750	\$ 34,424,927
Emergency medical services	0.498	6,237,928
TOTAL CITY LEVY	\$3.248	\$ 40,662,855

NOTE 6 – CAPITAL ASSETS AND DEPRECIATION

Capital assets consist of land, buildings, improvements, machinery and equipment, infrastructure (e.g., roads, bridges, traffic controls, library collections, and similar items), and intangibles (e.g., computer software and other intellectual property) with an estimated useful life of more than one year. Land is capitalized at cost with no minimum threshold. Buildings, improvements, machinery and equipment and intangibles are capitalized when the cost of an individual item exceeds \$5,000. Infrastructure assets are capitalized when the cost equals or exceeds \$200,000. Assets are valued at actual historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets and infrastructure are valued at their estimated fair value on the date received. Capital assets financed by capital leases are recorded at the present value of lease payments. Renewals and betterments are capitalized and depreciated over the remaining useful lives of the related properties. The cost of normal maintenance and repair of both governmental and business-type assets is charged to operations as incurred.

Capital assets are reported in the applicable governmental or business-type columns in the government-wide financial statements. Capital assets of the internal service funds are reported with governmental assets in the statement of net position.

A summary of changes in governmental capital assets appears as follows:

GOVERNMENTAL ACTIVITIES	BEGINNING BALANCE 01/01/15	ADDITIONS	TRANSFERS	DELETIONS	ENDING BALANCE 12/31/15
Capital assets, not being depreciated or amortized:					
Land	\$ 60,646,719	\$ -	\$ 484,797	\$ (721,693)	\$ 60,409,823
Construction in progress	3,040,206	15,374,835	(15,620,303)	(368,816)	2,425,922
Total capital assets, not being depreciated or amortized	63,686,925	15,374,835	(15,135,506)	(1,090,509)	62,835,745
Capital assets, being depreciated or amortized:					
Buildings	100,544,779	-	1,500,017	-	102,044,796
Improvements other than buildings	33,147,399	-	2,180,664	-	35,328,063
Infrastructure	237,417,754	7,438,889	11,454,825	(553,664)	255,757,804
Machinery and equipment	29,430,939	2,182,444	6,648	(905,522)	30,714,509
Intangibles	947,732	218,433	-	-	1,166,165
Total capital assets being depreciated or amortized	401,488,603	9,839,766	15,142,154	(1,459,186)	425,011,337
Less accumulated depreciation or amortization for:					
Buildings	(35,276,885)	(2,335,830)	-	-	(37,612,715)
Improvements other than buildings	(19,480,785)	(1,303,611)	-	-	(20,784,396)
Infrastructure	(64,099,686)	(4,737,317)	-	553,664	(68,283,339)
Machinery and equipment	(19,119,405)	(1,739,735)	(6,648)	870,401	(19,995,387)
Intangibles	(632,756)	(134,931)	-	-	(767,687)
Total accumulated depreciation and amortization	(138,609,517)	(10,251,424)	(6,648)	1,424,065	(147,443,524)
Total capital assets being depreciated or amortized, net	262,879,086	(411,658)	15,135,506	(35,121)	277,567,813
Governmental activities capital assets, net	\$ 326,566,011	\$ 14,963,177	\$ -	\$ (1,125,630)	\$ 340,403,558

A summary of changes in business-type capital assets appears as follows:

BUSINESS-TYPE ACTIVITIES	BEGINNING BALANCE 01/01/15	ADDITIONS	TRANSFERS	DELETIONS	ENDING BALANCE 12/31/15
Capital assets, not being depreciated:					
Land	\$ 34,535,756	\$ -	\$ -	\$ -	\$ 34,535,756
Construction in progress	34,428,659	45,033,521	(2,966,968)	(11,606)	76,483,606
Total capital assets, not being depreciated	68,964,415	45,033,521	(2,966,968)	(11,606)	111,019,362
Capital assets, being depreciated					
Buildings	195,715,644	-	135,984	-	195,851,628
Improvements other than buildings	505,459,664	991,619	2,769,286	-	509,220,569
Infrastructure	1,917,502	-	-	-	1,917,502
Machinery and equipment	38,645,849	2,000,714	(6,648)	(2,333,132)	38,306,783
Intangibles	16,108,353	-	61,698	-	16,170,051
Total capital assets being depreciated	757,847,012	2,992,333	2,960,320	(2,333,132)	761,466,533
Less accumulated depreciation for:					
Buildings	(67,794,932)	(4,113,412)	-	-	(71,908,344)
Improvements other than buildings	(163,189,562)	(10,792,275)	-	-	(173,981,837)
Infrastructure	(287,625)	(95,875)	-	-	(383,500)
Machinery and equipment	(24,869,583)	(1,958,455)	-	2,323,913	(24,504,125)
Intangibles	(5,956,534)	(264,834)	-	-	(6,221,368)
Total accumulated depreciation	(262,098,236)	(17,224,851)	-	2,323,913	(276,999,174)
Total assets being depreciated, net	495,748,776	(14,232,518)	2,960,320	(9,219)	484,467,359
Business-type activities capital assets, net	\$ 564,713,191	\$ 30,801,003	\$ (6,648)	\$ (20,825)	\$ 595,486,721

Depreciation

Annual depreciation is recorded as an expense of the related activity. Provision for depreciation is computed using the straight-line method over estimated service life as follows. Certain facts or circumstances of specific assets may require amortization over shorter or longer periods.

	<u>Estimated Service Life</u>
Buildings	25-50 Years
Improvements Other Than Buildings	5-50 Years
Infrastructure	10-50 Years
Machinery and Equipment	2-20 Years
Intangibles	2-20 Years

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

GOVERNMENTAL ACTIVITIES	
General government services	\$ 545,294
Police	889,253
Fire	823,655
Engineering & construction services	262,959
Transportation	4,294,916
Community services	128,820
Library	868,768
Culture and recreation	2,132,613
Judicial	23,903
Social Services	1,009
Internal service allocated to business-type activities	280,234
Total depreciation - governmental activities	\$ 10,251,424
BUSINESS-TYPE ACTIVITIES	
Water	\$ 6,507,350
Sewer	7,138,969
Solid waste	274,808
Parking	40,078
Transit	3,019,024
Golf	524,856
Internal service allocated to business-type activities	(280,234)
Total depreciation - business-type activities	\$ 17,224,851
Total depreciation - all activities	\$ 27,476,275

NOTE 7 - PENSION PLANS

The following table represents the aggregate pension amounts for all plans subject to the requirements of the GASB Statement 68, *Accounting and Financial Reporting for Pensions* for the year 2015:

Aggregate Pension Amounts – All Plans	
Pension liabilities	\$ 45,203,704
Pension assets	\$ 25,195,567
Deferred outflows of resources	\$ 9,628,770
Deferred inflows of resources	\$ 15,249,538
Pension expense/expenditures	\$ 451,297

State Sponsored Pension Plans

Substantially all City's full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing, multiple-employer public employee defined benefit and defined contribution retirement plans. The state Legislature establishes, and amends, laws pertaining to the creation and administration of all public retirement systems.

The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to:

Department of Retirement Systems
Communications Unit
P.O. Box 48380
Olympia, WA 98540-8380

Or the DRS CAFR may be downloaded from the DRS website at www.drs.wa.gov.

Public Employees' Retirement System (PERS)

PERS members include elected officials; state employees; employees of the Supreme, Appeals and Superior Courts; employees of the legislature; employees of district and municipal courts; employees of local governments; and higher education employees not participating in higher education retirement programs. PERS is comprised of three separate pension plans for membership purposes. PERS plans 1 and 2 are defined benefit plans, and PERS plan 3 is a defined benefit plan with a defined contribution component.

PERS Plan 1 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service. The AFC is the average of the member's 24 highest consecutive service months. Members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with at least 25 years of service, or at age 60 with at least five years of service. Members retiring from active status prior to the age of 65 may receive actuarially reduced benefits. Retirement benefits are actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, an optional cost-of-living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. PERS 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30, 1977.

Contributions

The **PERS Plan 1** member contribution rate is established by State statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2015 were as follows:

PERS Plan 1		
Actual Contribution Rates:	Employer	Employee*
January through June 2015	9.21%	6.00%
July through December 2015	11.18%	6.00%

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

The City's actual contributions to the plan were \$193,616 for the year ended December 31, 2015.

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

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

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

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

Contributions

The **PERS Plan 2/3** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payrolls) for 2015 were as follows:

PERS Plan 2/3		
Actual Contribution Rates:	Employer 2/3	Employee 2*
January through June 2015	9.21%	4.92%
July through December 2015	11.18%	6.12%
Employee PERS Plan 3		varies

* For employees participating in JBM, the contribution rate was 15.30%

The City's actual contributions to the plan were \$5,358,714 for the year ended December 31, 2015.

Public Safety Employees' Retirement System (PSERS)

PSERS Plan 2 was created by the 2004 Legislature and became effective July 1, 2006. To be eligible for membership, an employee must work on a full time basis and:

- Have completed a certified criminal justice training course with authority to arrest, conduct criminal investigations, enforce the criminal laws of Washington, and carry a firearm as part of the job; or
- Have primary responsibility to ensure the custody and security of incarcerated or probationary individuals; or

- Function as a limited authority Washington peace officer, as defined in RCW 10.93.020; or
- Have primary responsibility to supervise eligible members who meet the above criteria.

PSERS membership includes:

- PERS 2 or 3 employees hired by a covered employer before July 1, 2006, who met at least one of the PSERS eligibility criteria and elected membership during the period of July 1, 2006 to September 30 2006; and
- Employees hired on or after July 1, 2006 by a covered employer, that meet at least one of the PSERS eligibility criteria.

PSERS covered employers include:

- Certain State of Washington agencies (Department of Corrections, Department of Natural Resources, Gambling commission, Liquor Control Board, Parks and Recreation Commission, and Washington State Patrol),
- Washington State Counties,
- Washington State Cities (except for Seattle, Spokane, and Tacoma),
- Correctional entities formed by PSERS employers under the Interlocal Cooperation Act.

PSERS Plan 2 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the average final compensation (AFC) for each year of service. The AFC is based on the member's 60 consecutive highest creditable months of service. Benefits are actuarially reduced for each year that the member's age is less than 60 (with ten or more service credit years in PSERS), or less than 65 (with fewer than ten service credit years). There is no cap on years of service credit. Members are eligible for retirement at the age of 65 with five years of service; or at the age of 60 with at least ten years of PSERS service credit; or at age 53 with 20 years of service. Retirement before age 60 is considered an early retirement. PSERS members who retire prior to the age of 60 receive reduced benefits. If retirement is at age 53 or older with at least 20 years of service, a three percent per year reduction for each year between the age at retirement and age 60 applies. PSERS Plan 2 retirement benefits are actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, an optional cost-of living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. PSERS Plan 2 members are vested after completing five years of eligible service.

Contributions

The **PSERS Plan 2** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2. The Plan 2 employer rates include components to address the PERS Plan 1 unfunded actuarial accrued liability and administrative expense currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates.

The PSERS Plan 2 required contribution rates (expressed as a percentage of current-year covered payroll) for 2015 were as follows:

PSERS Plan 2		
Actual Contribution Rates:	Employer	Employee
January through June 2015	10.54%	6.36%
July through December 2015	11.54%	6.59%

The City's actual contributions to the plan were \$74,288 for the year ended December 31, 2015.

Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF)

LEOFF membership includes all full-time, fully compensated, local law enforcement commissioned officers, firefighters, and as of July 24, 2005, emergency medical technicians. LEOFF is comprised of two separate defined benefit plans.

LEOFF Plan 1 provides retirement, disability and death benefits. Retirement benefits are determined per year of service calculated as a percent of final average salary (FAS) as follows:

- 20+ years of service – 2.0% of FAS
- 10-19 years of service – 1.5% of FAS
- 5-9 years of service – 1% of FAS

The FAS is the basic monthly salary received at the time of retirement, provided a member has held the same position or rank for 12 months preceding the date of retirement. Otherwise, it is the average of the highest consecutive 24 months' salary within the last ten years of service. Members are eligible for retirement with five years of service at the age of 50. Other benefits include duty and non-duty disability payments, a cost-of living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. LEOFF 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30, 1977.

Contributions

Starting on July 1, 2000, **LEOFF Plan 1** employers and employees contribute zero percent, as long as the plan remains fully funded. The LEOFF Plan 1 had no required employer or employee contributions for fiscal year 2015. Employers paid only the administrative expense of 0.18 percent of covered payroll.

LEOFF Plan 2 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the final average salary (FAS) per year of service (the FAS is based on the highest consecutive 60 months). Members are eligible for retirement with a full benefit at 53 with at least five years of service credit. Members who retire prior to the age of 53 receive reduced benefits. If the member has at least 20 years of service and is age 50, the reduction is three percent for each year prior to age 53. Otherwise, the benefits are actuarially reduced for each year prior to age 53. LEOFF 2 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the CPI), capped at three percent annually and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. LEOFF 2 members are vested after the completion of five years of eligible service.

Contributions

The **LEOFF Plan 2** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2. The employer rate included an administrative expense component set at 0.18 percent. Plan 2 employers and employees are required to pay at the level adopted by the LEOFF Plan 2 Retirement Board. The LEOFF Plan 2 required contribution rates (expressed as a percentage of covered payroll) for 2015 were as follows:

LEOFF Plan 2		
Actual Contribution Rates:	Employer	Employee
State and local governments	5.23%	8.41%
Ports and Universities	8.59%	8.41%

The City's actual contributions to the plan were \$1,913,878 for the year ended December 31, 2015.

The Legislature, by means of a special funding arrangement, appropriates money from the state General Fund to supplement the current service liability and fund the prior service costs of Plan 2 in accordance with the recommendations of the Pension Funding Council and the LEOFF Plan 2 Retirement Board. This special funding situation is not mandated by the state constitution and could be changed by statute. For the state fiscal year ending June 30, 2015, the state contributed \$58,339,032 to LEOFF Plan 2.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2015 with a valuation date of June 30, 2014. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) *2007-2012 Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2014 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2015. Plan liabilities were rolled forward from June 30, 2014, to June 30, 2015, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- **Inflation:** 3% total economic inflation; 3.75% salary inflation
- **Salary increases:** In addition to the base 3.75% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- **Investment rate of return:** 7.5%

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

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

- The OSA updated demographic assumptions, consistent with the changes from the *2007-2012 Experience Study Report*, used when valuing the PERS 1 and TERS 1 Basic Minimum COLA.
- The OSA corrected how valuation software calculates a member's entry age under the entry age normal actuarial cost method. Previously, the funding age was rounded, resulting in an entry age one year higher in some cases.
- For purposes of calculating the Plan 2/3 Entry Age Normal Cost contribution rates, the OSA now uses the current blend of Plan 2 and Plan 3 salaries rather than using a long-term membership assumption of two-thirds Plan 2 members and one-third Plan 3 members.
- The OSA changed the way it applies salary limits, as described in the *2007-2012 Experience Study Report*.

Discount Rate

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

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

Long-Term Expected Rate of Return

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

Estimated Rates of Return by Asset Class

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2015, are summarized in the table below. The inflation component used to create the table is 2.2 percent and represents the WSIB's most recent long-term estimate of broad economic inflation.

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

Sensitivity of NPL

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

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
PERS 1	\$ 30,531,664	\$ 25,077,288	\$ 20,387,024
PERS 2/3	\$ 58,737,868	\$ 20,087,834	(\$ 9,505,048)
SERS 2/3	\$ 0	\$ 0	\$ 0
PSERS 2	\$ 293,168	\$ 38,582	(\$ 142,517)
LEOFF 1	(\$ 3,326,477)	(\$ 5,199,625)	(\$ 6,796,134)
LEOFF 2	\$ 20,024,638	(\$ 19,995,942)	(\$ 50,112,996)

Pension Plan Fiduciary Net Position

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

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

At June 30, 2015, the City reported a total pension liability of \$45,203,704 and pension assets of \$25,195,567 for its proportionate share of the net pension liabilities (Assets) as follows:

	Liability (or Asset)
PERS 1	\$ 25,077,288
PERS 2/3	\$ 20,087,834
SERS 2/3	\$ 0
PSERS 2	\$ 38,582
LEOFF 1	(\$ 5,199,625)
LEOFF 2	(\$ 19,995,942)

The amount of the liability/(asset) reported above for LEOFF Plan 2 reflects a reduction for State pension support provided to the City. The amount recognized by the City as its proportionate share of the net pension liability/(asset), the related State support, and the total portion of the net pension liability/(asset) that was associated with the City were as follows:

	Liability (or Asset)
LEOFF 2 – employer's proportionate share	\$ 1,716,560
LEOFF 2 – State's proportionate share of the net pension liability/(asset) associated with the employer	\$ 1,134,991
TOTAL	\$ 2,851,551

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

	Proportionate Share 6/30/14	Proportionate Share 6/30/15	Change in Proportion
PERS 1	0.522092%	0.479404%	(0.042688%)
PERS 2/3	0.601198%	0.562203%	(0.038995%)
SERS 2/3	0%	0%	0%
PSERS 2	0.233270%	0.211384%	(0.021886%)
LEOFF 1	0.435204%	0.431425%	(0.003779%)
LEOFF 2	2.243048%	1.945509%	(0.297539%)

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

LEOFF Plan 1 allocation percentages are based on the total historical employer contributions to LEOFF 1 from 1971 through 2000 and the retirement benefit payments in fiscal year 2015. Historical data was obtained from a 2011 study by the Office of the State Actuary (OSA). In fiscal year 2015, the state of Washington contributed 87.12 percent of LEOFF 1 employer contributions and all other employers contributed the remaining 12.88 percent of employer contributions. LEOFF 1 is fully funded and no further employer contributions have been required since June 2000. If the plan becomes underfunded, funding of the remaining liability will require new legislation. The allocation method the plan chose reflects the projected long-term contribution effort based on historical data.

In fiscal year 2015, the state of Washington contributed 39.80 percent of LEOFF 2 employer contributions pursuant to RCW 41.27.726 and all other employers contributed the remaining 60.20 percent of employer contributions.

The collective net pension liability (asset) was measured as of June 30, 2015, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2014, with update procedures used to roll forward the total pension liability to the measurement date.

Pension Expense

For the year ended December 31, 2015, the City recognized pension expense as follows:

	Pension Expense
PERS 1	(\$ 622,574)
PERS 2/3	(\$ 714,747)
SERS 2/3	\$ 0
PSERS 2	\$ 39,241
LEOFF 1	(\$ 998,962)
LEOFF 2	\$ 2,748,440
TOTAL	\$ 451,398

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Pers 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$	\$
Net difference between projected and actual investment earnings on pension plan investments	\$	\$ 1,372,002
Changes of assumptions	\$	\$
Changes in proportion and differences between contributions and proportionate share of contributions	\$	\$
Contributions subsequent to the measurement date	\$ 110,498	\$
TOTAL	\$ 110,498	\$ 1,372,002

Pers 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 2,135,343	\$
Net difference between projected and actual investment earnings on pension plan investments	\$ 1,254,724	\$ 5,362,500
Changes of assumptions	\$ 32,366	\$
Changes in proportion and differences between contributions and proportionate share of contributions	\$	\$
Contributions subsequent to the measurement date	\$ 3,139,496	\$
TOTAL	\$ 6,561,929	\$ 5,362,500

Psers 2	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 36,147	\$
Net difference between projected and actual investment earnings on pension plan investments	\$	\$ 19,137
Changes of assumptions	\$ 239	\$
Changes in proportion and differences between contributions and proportionate share of contributions	\$ 1,336	\$
Contributions subsequent to the measurement date	\$ 41,555	\$
TOTAL	\$ 79,277	\$ 19,137

Leoff 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$	\$
Net difference between projected and actual investment earnings on pension plan investments	\$	\$ 877,799
Changes of assumptions	\$	\$
Changes in proportion and differences between contributions and proportionate share of contributions	\$	\$
Contributions subsequent to the measurement date	\$ 256	\$
TOTAL	\$ 256	\$ 877,799

Leoff 2	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 1,750,978	\$
Net difference between projected and actual investment earnings on pension plan investments	\$	\$ 6,058,665
Changes of assumptions	\$ 52,743	\$
Changes in proportion and differences between contributions and proportionate share of contributions	\$	\$ 1,559,435
Contributions subsequent to the measurement date	\$ 1,073,089	\$
TOTAL	\$ 2,876,810	\$ 7,618,100

Deferred outflows of resources related to pensions resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Deferred Outflows					
Contribution Subsequent to Measurement Date					
	Pers 1	Pers 2/3	Pers 2	Leoff 1	Leoff 2
2016	110,498	6,561,929	79,277	256	2,876,810
2017	-	-	-	-	-
2018	-	-	-	-	-
2019	-	-	-	-	-
2020	-	-	-	-	-
	110,498	6,561,929	79,277	256	2,876,810

Deferred Inflows					
Difference Between Projected and Actual Earnings on Investments					
	Pers 1	Pers 2/3	Pers 2	Leoff 1	Leoff 2
2016	274,400	1,072,500	3,827	175,560	1,523,620
2017	274,400	1,072,500	3,827	175,560	1,523,620
2018	274,400	1,072,500	3,827	175,560	1,523,620
2019	274,400	1,072,500	3,827	175,560	1,523,620
2020	274,400	1,072,500	3,829	175,559	1,523,620
	1,372,000	5,362,500	19,137	877,799	7,618,100

FIRE PENSION FUND / POLICE PENSION FUND

The following table represents the aggregate pension amounts for all plans subject to the requirements of GASB Statement 68 for the year 2015:

Aggregate Pension Amounts - All Plans	Total
Pension liabilities	\$ 12,858,295
Pension assets	\$ 15,443,883
Deferred outflows of resources	\$ -
Deferred inflows of resources	\$ 22,002
Pension expense/expenditures	\$ 43,048

Plan Description

The City is the administrator of the City of Everett Fire and Police Pension Fund, shown as trust funds in the City's financial reports. Separate financial statements are not issued. Both systems are closed single-employer defined benefit pension plans established in conformance with RCWs 41.16, 41.18 and 41.20. These plans provide retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Membership is limited to firefighters and police officers employed prior to March 1, 1970 when the LEOFF retirement system was established. The City's obligation under the plans consists of paying all benefits, including payment to beneficiaries, for members who retired prior to March 1, 1970 and excess benefits over LEOFF for covered members who retired or will retire after March 1, 1970.

The Fire Pension Fund is administered by a fire pension board comprised of the mayor or a designated representative who shall be an elected official of the City, who shall be the chairperson of the board, the City council finance committee chairperson, the City clerk, and two regularly employed or retired fire fighters elected by secret ballot of the employed and retired fire fighters. The state contributes 25% of taxes on fire insurance premium to the Firefighter's Pension Funds. In 2015, the city received \$164,527 from the state for the Fire Pension Fund.

The Police Pension Fund is administered by a police pension board comprised of the mayor or his designated representative who shall be an elected official of the City, the City clerk, the City treasurer, president of the City council, and three active or retired members of the police department elected by active and retired members of the police department.

Membership of the Plans consisted of the following as of December 31, 2015:

- Retirees and beneficiaries of deceased retirees retiring prior to March 1, 1970 currently receiving full pension benefits from the Fire and Police Pension Fund number 3 and 2, respectively.
- Retirees and beneficiaries of deceased retirees retiring on or after March 1, 1970 currently receiving benefits in excess of what LEOFF provides from the Fire and Police Pension Funds number 73 and 42, respectively.

Fire Pension members are eligible for retirement after serving 25 years and reaching the age of 50. Members retiring with 25 years of service are paid 50 percent of the basic salary attached to the rank held at the date of retirement. Members retiring with more than 25 years of service will receive an additional 2% of their base for each full year of additional service up to a maximum of five additional years.

Police Pension members are eligible for retirement after serving for 25 years. Members retiring with 25 years of service are paid 50 percent of the basic salary attached to the position held for the year preceding the date of retirement, up to the position of captain. Members retiring with more than 25 years of service will receive an additional 2% of their base for each full year of additional service up to a maximum of five additional years.

There are 1 active firefighter plan participants and 113 firefighter retirees currently receiving benefits. There are 1 active law enforcement plan participants and 80 law enforcement retirees currently receiving benefits

There were no changes in benefit provisions in the current year.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Fire Pension Fund and the Police Pension Fund financial statements are prepared using the accrual basis of accounting. Employer contributions to each plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

Investments

Investments are reported at fair value, as provided by the custodian. It is the policy of the Pension Board to pursue an investment strategy based on the prudent person standard, which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering probable safety of their capital as well as the probable income to be derived. With the exception of US Treasury, no more than 50% of the total investment portfolio will can be invested in a single security type and no more than 25% can be invested with a single financial institution.

Concentrations

The pension plans investments are mostly held in the following government sponsored enterprise (GSE) issued securities:

Agencies	Fire Pension		Police Pension	
FFCB	3,042,484	28%	1,185,596	33%
FHLB	2,496,322	23%	802,908	22%
FHLMC	2,641,854	25%	831,824	23%
FNMA	2,568,833	24%	800,521	22%
Total Investments	10,749,493	100%	3,620,849	100%

Rate of return

For the year ended December 31, 2015, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 3.14% for the Fire Pension Fund and 3.18% for the Police Pension Fund. The money-weighted rate of return expresses investment performance, net of investment expenses, adjusted for the changing amounts actually invested.

Net Pension Liability

	Fire Pension	Police Pension
Total pension liability	7,830,584	5,027,711
Plan fiduciary net position	11,228,197	4,215,686
Net pension liability (asset)	(3,397,613)	812,025
Plan fiduciary net position as a percentage of the total pension liability	143%	84%

The negative net pension liability is a result of the City overpaying its annual required pension cost.

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of January 1, 2015, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.5%
Salary increases	2.5%
Investment rate of return	3.5%, net of pension plan investment expense

Mortality rates were based on the RP-2000 mortality tables projected to 2025 with Scale BB.

The actuarial assumptions used in the valuation include:

- Measurement date of December 31, 2014
- Update procedures were used to roll forward the total pension liability to the pension plan's fiscal year-end
- Actuarial value of assets equal to market value
- Closed 30 year amortization period of the unfunded obligation beginning January 1, 2000
- Entry Age Cost Method
- The investment return was determined by using moderate rate that conservatively reflects the returns expected to be achieved by the fund each year.

Discount Rate

The discount rate used to measure the total pension liability was 3.5%. The projection of cash flows used to determine the discount rate assumed that City's future annual contributions increases at 5% each year. Based on this assumption the pension plan's fiduciary net position is determined to be actuarially sufficient to fully fund the plan's obligations by the end of year 2030.

Sensitivity of the net pension liability to changes in the discount rate

The following presents the net pension liability of the City, calculated using the discount rate of 3.5%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1% lower (2.5%) or 1% higher (4.5%) than the current rate:

	1% Decrease (2.5%)	Current Discount Rate (3.5%)	1% Increase (4.5%)
City's net pension liability (asset)			
Fire Pension	\$ (2,589,863)	\$ (3,397,613)	\$ (4,063,722)
Police Pension	\$ 1,811,644	\$ 812,025	\$ 708,930

Changes in the Net Pension Liability

	Fire Pension			Police Pension		
	Fire Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)	Police Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at 12/31/2014	\$ 7,980,957	\$ 10,065,143	\$ (2,084,186)	\$ 5,526,396	\$ 2,504,275	\$ 3,022,121
Changes for the Year:						
Service Cost	-	-	-	-	-	-
Interest	279,333	-	279,333	193,424	-	193,424
Changes in benefit terms	-	-	-	-	-	-
Difference between expected and actual experience	98,923	-	98,923	(160,813)	-	(160,813)
Changes in assumptions	-	-	-	-	-	-
Contributions - employer	-	1,365,598	(1,365,598)	-	2,161,085	(2,161,085)
Contributions - employees	-	-	-	-	-	-
Projected Earning on Investments *	-	345,084	(345,084)	-	85,176	(85,176)
Difference between expected and actual earnings *	-	(18,861)	18,861	-	(3,141)	3,141
Benefit payment, including refunds of contributions	(528,629)	(528,629)	-	(531,296)	(531,296)	-
Administrative expense	-	(138)	138	-	(413)	413
Other changes	-	-	-	-	-	-
Net changes	(150,373)	1,163,054	(1,313,427)	(498,685)	1,711,411	(2,210,096)
Balance at 12/31/2015	\$ 7,830,584	\$ 11,228,197	\$ (3,397,613)	\$ 5,027,711	\$ 4,215,686	\$ 812,025

At December 31, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Fire Pension		Police Pension	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$ -	\$ -	\$ -
Net difference between projected and actual investment earnings on pension plan investments	-	18,861	-	3,141
Changes of assumptions	-	-	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	-	-	-	-
Contributions subsequent to the measurement date	-	-	-	-
Total	\$ -	\$ 18,861	\$ -	\$ 3,141

Deferred outflows of resources related to pensions resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	Fire Pension	Police Pension
2016	\$ 3,773	\$ 628
2017	\$ 3,773	\$ 628
2018	\$ 3,773	\$ 628
2019	\$ 3,772	\$ 628
2020	\$ 3,772	\$ 628
Thereafter	\$ -	\$ -

NOTE 8 – OTHER POST EMPLOYMENT BENEFITS (OPEB)

In addition to the Fire and Police Pension Plans described in Note 7 above, the City is also the administrator of the Fire and Police defined benefit post-employment healthcare plans.

Plan Descriptions

Both plans are closed single-employer defined benefit healthcare plans shown as trust funds in the City's financial reports. Separate financial statements are not issued. In accordance with RCW 41.26, the City provides lifetime medical care for firefighters and law enforcement officers employed prior to October 1, 1977. The City is self-insured and pays actual claims incurred by plan participants. The City carries individual and aggregate stop loss insurance to mitigate the risk associated with being self-insured. The plans are administered by the same boards that administer the Fire and Police Pension Plans as described in Note 7.

There are 1 active firefighter plan participants and 113 firefighter retirees currently receiving benefits. There are 1 active law enforcement plan participants and 80 law enforcement retirees currently receiving benefits.

Summary of Significant Accounting Policies

The Fire Healthcare Fund and the Police Healthcare Fund financial statements are prepared using the accrual basis of accounting. Employer contributions to each plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

Investments are reported at fair value, as provided by the custodian. Details on the investments of the Fire and Police Healthcare Funds are included in Note 4.

Funding Policy

Neither Fire nor Police retirees contribute towards the cost of his/her medical care. The primary sources of funding for both plans are property taxes levied by the City and interest earnings. In addition, the City receives a small Medicare D subsidy. In 2015, the City received \$98,756 in Medicare D reimbursements, which were split between the two funds. Administrative costs are financed through interest earnings.

The City's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over the next 15 years. The following table shows the components of the City's annual OPEB costs for the year, the amounts actually contributed to the plans, and the change in the City's net OPEB obligation.

	FIRE HEALTHCARE FUND	POLICE HEALTHCARE FUND
Annual Required Contribution (ARC)	\$ 537,048	\$ 838,394
Interest on Net OPEB Obligation	94,819	39,921
Actuarial Adjustment to ARC	(169,320)	(63,366)
Annual OPEB Cost (expense)	462,547	814,949
Contributions Made	940,014	1,248,617
Increase / (Decrease) in OPEB Obligation	(477,467)	(433,668)
Net OPEB Obligation at beginning of year	2,709,121	1,140,588
Net OPEB Obligation at end of year	\$ 2,231,654	\$ 706,920

The net OPEB obligation has been recorded in the City's government-wide Statement of Net Position.

The City's annual OPEB cost (AOC), the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2015 and the two preceding years were as follows:

FIRE HEALTHCARE FUND			
<u>Year Ending</u>	<u>Cost (AOC)</u>	<u>Percent of AOC Contributed by City</u>	<u>Net OPEB Obligation</u>
December 31, 2015	\$ 462,547	203.2%	\$ 2,231,654
December 31, 2014	1,229,490	4.2%	2,709,121
December 31, 2013	1,183,315	4.2%	1,530,850

POLICE HEALTHCARE FUND			
<u>Year Ending</u>	<u>Cost (AOC)</u>	<u>Percent of AOC Contributed by City</u>	<u>Net OPEB Obligation</u>
December 31, 2015	\$ 814,949	153.2%	\$ 706,920
December 31, 2014	1,128,353	4.5%	1,140,588
December 31, 2013	1,080,529	4.6%	63,455

Funded Status and Funding Progress

The funded status of each plan as of the most recent actuarial valuation date is as follows:

As of January 1, 2015 the Fire healthcare plan was 53.3% funded. The actuarial accrued liability for benefits was \$35.2 million, the actuarial value of assets was \$18.8 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$16.4 million. The covered payroll (annual payroll of active employees covered by the plan) was \$187,938, and the ratio of the UAAL to the covered payroll was 8747.03%.

As of January 1, 2015 the Police Healthcare plan was 45.9% funded. The actuarial accrued liability for benefits was \$26.1 million, the actuarial value of assets was \$12 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$14.1 million. The covered payroll (annual payroll of active employees covered by the plan) was \$138,549, and the ratio of the UAAL to the covered payroll was 10192.78%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about mortality and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The required schedule of funding progress immediately following the notes to the financial statements presents three years of funding progress, which presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Methods and Assumptions

An actuarial study is performed biennially for the Fire and Police OPEB funds. The most recent actuarial study of the Fire and Police OPEB Fund systems was computed by Northwest Plan Services to determine the funded status as of January 1, 2015. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The actuarial cost method used in the valuation is the Entry Age Cost method. Under the Entry Age Cost method, actuarial normal cost is equal to zero and actuarial liability is equal to the present value of all future benefit expected to be paid, assuming a closed amortization period of 15 years and that the City's contribution will increase 5 percent each year.

The actuarial assumptions included (a) 3.5% annual investment return down from 5.0%, (b) 8.0% increase in medical inflation rate for 2015, grading down to 5.0% over 6 years, changed from 12.0% in 2009 grading down to 5.5% over 13 years, (c) 5.0% annual increase in long-term care inflation rate, and (d) life expectancy based on RP-2000 mortality tables projected to 2025 with Scale BB.

Separate financial statements are not issued for the fire and police healthcare funds. The statement of fiduciary net position, and the statement of changes in fiduciary net position for the healthcare and pension funds appear on the following page.

**STATEMENT OF FIDUCIARY NET POSITION
DECEMBER 31, 2015**

	637a POLICE PENSION FUND	637b POLICE HEALTHCARE FUND	638a FIRE PENSION FUND	638b FIRE HEALTHCARE FUND	TOTAL TRUST FUNDS
ASSETS					
Cash and cash equivalents	\$ 593,151	\$ 345,120	\$ 478,629	\$ 116,828	\$ 1,533,728
Agency Bonds	3,620,849	12,454,932	10,749,493	18,884,852	45,710,126
Accounts receivable - net	1,686	-	75	-	1,761
Interest receivable	-	-	-	8,379	8,379
TOTAL ASSETS	4,215,686	12,800,052	11,228,197	19,010,059	47,253,994
LIABILITIES					
Accounts payable	-	4,770	-	8,945	13,715
TOTAL LIABILITIES	-	4,770	-	8,945	13,715
NET POSITION					
Restricted for pension benefits and other purposes	\$ 4,215,686	\$ 12,795,282	\$ 11,228,197	\$ 19,001,114	\$ 47,240,279

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR THE YEAR DECEMBER 31, 2015**

	637a POLICE PENSION FUND	637b POLICE HEALTHCARE FUND	638a FIRE PENSION FUND	638b FIRE HEALTHCARE FUND	TOTAL TRUST FUNDS
ADDITIONS:					
Contributions					
Employer	\$ 2,161,085	\$ 1,248,617	\$ 1,201,072	\$ 940,014	\$ 5,550,788
State	-	-	164,527	-	164,527
Total contributions	2,161,085.00	1,248,617	1,365,599	940,014	5,715,315
Investment income					
Interest	70,178	295,051	257,525	463,886	1,086,640
Net appreciation (depreciation) in fair value	11,858	90,865	68,697	129,548	300,968
Net investment income	82,036	385,916	326,222	593,434	1,387,608
TOTAL ADDITIONS	2,243,121	1,634,533	1,691,821	1,533,448	7,102,923
DEDUCTIONS:					
Benefits	531,297	794,973	528,629	1,278,419	3,133,318
Administrative expense	413	14,252	138	14,905	29,708
TOTAL DEDUCTIONS	531,710	809,225	528,767	1,293,324	3,163,026
CHANGE IN NET POSITION					
Pension benefits	1,711,411		1,163,054		2,874,465
Postemployment healthcare benefits		825,308		240,124	1,065,432
NET POSITION RESTRICTED FOR EMPLOYEES' PENSION BENEFITS					
Employees' pension benefits, January 1	2,504,275		10,065,143		12,569,418
NET POSITION RESTRICTED FOR POSTEMPLOYMENT HEALTHCARE BENEFITS					
Postemployment healthcare benefits, January 1		11,969,974		18,760,990	30,730,964
NET POSITION - ENDING	\$ 4,215,686	\$ 12,795,282	\$ 11,228,197	\$ 19,001,114	\$ 47,240,279

NOTE 9 - RISK MANAGEMENT

The City of Everett is exposed to various risks of loss from torts; theft of, damage to, or destruction of assets; business interruption; errors and omissions; injuries to employees; and natural disasters.

The City combines the reporting of risk management activities into one internal service fund – The Self-Insurance Fund – to account for and finance uninsured risks. All departments of the City make payments through interfund assessments to the self-insurance fund based on estimates of the amounts needed to pay prior and current year claims and to establish a reserve for catastrophic losses.

For the year ending 12/31/2015, the self-insured retention for general liability, auto liability (excluding transit), law enforcement liability, errors and omissions liability and employment practices liability was \$1,250,000 per occurrence. Workers' compensation is self-insured, and effective July 1, 2014, subject to a maximum retention of \$1,500,000 for police officer, fire fighter, and bus driver classifications per occurrence, and \$1,000,000 for all other classifications per occurrence. Unemployment compensation costs are self-insured by paying the actual benefit cost.

The liability arising out of the operations of the George Culmback Dam are also self-insured. The Culmback Dam is a joint project with Snohomish County PUD No. 1. As such, payment of claims and expenses would be jointly shared between the two entities. To date, there has never been a claim made arising out of the dam operations. The reserve balance in said fund is sufficient to address the current self-insured retention of \$2,000,000.

The City purchases commercial insurance for claims in excess of the self-insured retentions and for all other risks of loss. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

Everett Transit is a member of the Washington State Transit Insurance Pool (WSTIP). Liability coverage is provided through the Pool with limits of \$20,000,000 and a \$0 deductible for auto and general liability, and limits of \$12,000,000 with a \$5,000 deductible for public officials liability.

Claims liabilities are based on the estimated ultimate cost of settling the claim, including case reserves and incurred but not reported (IBNR) claims. Case reserves for general, auto (excluding Transit), employment and law enforcement liabilities are estimated and projected by the Risk Management Division and the City's third-party administrator on a case-by-case basis using historical experience. Case reserves for Transit liability claims are estimated by the Transit pool, WSTIP. Case reserves for workers' compensation claims are estimated by the City's third-party administrator using statistical reserving formulas and historical experience. Claims liabilities include estimates for expenses related to adjusting/investigating and defending the claim or lawsuit.

At December 31, 2015, the estimated liability totaled \$10,057,667, consisting of \$5,920,505 for tort liability, \$4,003,538 for workers' compensation, and \$133,624 for unemployment compensation. These estimates are based on the provisions of Governmental Accounting Standards Board Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Claims liabilities are not discounted.

Changes in the funds' claims liability amounts in fiscal years 2014 and 2015 appear as follows:

	BALANCE AT BEGINNING OF FISCAL YEAR	CURRENT YEAR CLAIMS	CURRENT YEAR CHANGES IN ESTIMATES	CLAIM PAYMENTS	BALANCE AT FISCAL YEAR END
Tort Liability:					
2015	7,177,052	914,275	(702,899)	(1,467,923)	5,920,505
2014	8,177,179	1,240,349	1,038,963	(3,279,439)	7,177,052
Workers' Compensation:					
2015	4,395,374	1,589,564	267,851	(2,249,251)	4,003,538
2014	3,700,423	1,549,046	1,568,109	(2,422,204)	4,395,374
Unemployment Compensation:					
2015	105,996	154,182	79,022	(205,576)	133,624
2014	122,400	138,610	8,057	(163,071)	105,996

In 1995, the City created a self-insured health benefits program for its employees as a means to contain rising health benefit costs. The Health Benefits Reserve Fund 508 was established to account for the disbursement of actual medical expenses, associated administrative costs, and reserves for this program.

In order to mitigate its risk exposure the City holds individual and aggregate stop loss insurance, and maintains both claims fluctuation and liability reserves. The claims fluctuation reserve was \$2,266,861 at December 31, 2015. In addition, the liability reserve was \$2,266,861 at December 31, 2015, and is based on an analysis of the most recent twelve months of incurred claims with applied monthly completion factors, as required by Washington Administrative Code (WAC) 200-110-040(a).

Changes in the fund's claims liability in fiscal years 2014 and 2015 appear as follows:

	BALANCE AT BEGINNING OF YEAR	CLAIMS	CHANGES IN ESTIMATES	CLAIM PAYMENTS	BALANCE AT END OF YEAR
IBNR Liability:					
2015	2,009,288	11,564,763	257,572	(11,564,762)	2,266,861
2014	1,775,896	10,787,635	233,392	(10,787,635)	2,009,288

NOTE 10 - LONG-TERM DEBT

General Obligation Bonds

The City issues general obligation bonds to finance the purchase, acquisition, and/or the construction of capital assets. General obligation bonds have been issued for both general government and business-type activities and are being repaid from the applicable resources. General obligation bonds are direct obligations and pledge the full faith and credit of the government. These bonds generally are issued as 20 to 25-year serial bonds with equal amounts of principal maturing each year..

General obligation bonds outstanding at December 31, 2015, are as follows:

		DATE OF		AMOUNT		
NAME OF ISSUE / PURPOSE	DATE OF	FINAL	INTEREST	ORIGINALLY	REDEMPTIONS	DEBT
	ISSUE	MATURITY	RATE(S)	ISSUED	TO DATE	OUTSTANDING
Governmental Activities						
12 LTGO and Refunding Bonds - capital	10-04-12	12-01-26	2.00-4.00%	13,935,000	2,325,000	11,610,000
14 Floating Rate LTGO Bonds - capital	11-03-14	12-13-34	Variable	35,865,000	825,000	35,040,000
Total Governmental Activities				49,800,000	3,150,000	46,650,000
Business Activities						
10 LTGO Bonds - capital	03-26-10	12-01-19	1.00-4.25%	10,500,000	6,500,000	4,000,000
Total Business Activities				10,500,000	6,500,000	4,000,000
TOTAL GENERAL OBLIGATION BONDS				\$ 60,300,000	\$ 9,650,000	\$ 50,650,000

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

YEAR ENDING DECEMBER 31,	GOVERNMENTAL ACTIVITIES			BUSINESS-TYPE ACTIVITIES		
	PRINCIPAL	INTEREST	TOTAL REQUIREMENTS	PRINCIPAL	INTEREST	TOTAL REQUIREMENTS
2016	2,150,000	969,569	3,119,569	1,000,000	152,500	1,152,500
2017	2,145,000	924,991	3,069,991	1,000,000	120,000	1,120,000
2015	2,240,000	881,449	3,121,449	1,000,000	82,500	1,082,500
2019	2,430,000	834,787	3,264,787	1,000,000	42,500	1,042,500
2020	3,015,000	782,655	3,797,655	-	-	-
2021 - 2025	13,150,000	2,679,267	15,829,267	-	-	-
2026 - 2030	11,465,000	1,476,408	12,941,408	-	-	-
2031 - 2034	10,055,000	443,633	10,498,633	-	-	-
TOTAL	\$46,650,000	\$ 8,992,759	\$ 55,642,759	\$ 4,000,000	\$ 397,500	\$ 4,397,500

Interest on the 2014 Floating Rate Bonds is paid at a rate to be determined weekly using the rate equal to the weekly Securities Industry and Financial Markets Association Municipal Swap Index (SIFMA). The rate in effect at 12/31/15 was 0.41%.

Revenue Debt

The City issues bonds where the City pledges income derived from the acquired or constructed assets to pay the debt service.

The revenue bonds listed below will be repaid solely from water/sewer customer net revenues and are payable through 2040. The total principal and interest remaining to be paid on the bonds is \$275,868,320. Principal and interest expense for the current year and total customer net revenues were \$11,534,525 and \$32,591,616 respectively.

Proceeds from the bonds were used for capital purposes related to improving the water/sewer system including; water distribution system improvements, pipeline replacements, water tanks rehabilitation, wastewater pollution control facility expansion, sewer system capacity improvements, and sewer system replacements.

In 2015 the City issued \$50,525,000 in Water and Sewer Revenue Refunding Bonds with interest rates ranging from 2.00% to 5.00%.

Revenue bonds outstanding at December 31, 2015 are as follows:

NAME OF ISSUE / PURPOSE	DATE OF		INTEREST RATE(S)	AMOUNT	REDEMPTIONS TO DATE	DEBT OUTSTANDING
	DATE OF ISSUE	FINAL MATURITY		ORIGINALLY ISSUED		
09 Water/Sewer Revenue Bonds - capital	12-01-09	12-01-33	2.0-5.0%	40,000,000	8,055,000	31,945,000
11 Water/Sewer Revenue Bonds - capital	03-09-11	12-01-35	2.5-5.0%	51,000,000	2,855,000	48,145,000
13 Water/Sewer Revenue Bonds - capital	03-01-13	12-01-30	3.0-5.0%	62,145,000	4,395,000	57,750,000
15 Water/Sewer Revenue Bonds - capital	11-03-15	12-01-40	2.0-5.0%	50,525,000	-	50,525,000
TOTAL REVENUE BONDS				\$ 203,670,000	\$ 15,305,000	\$ 188,365,000

Annual debt service requirements to maturity for revenue bonds are as follows:

YEAR ENDING DECEMBER 31,	BUSINESS-TYPE ACTIVITIES		
	PRINCIPAL	INTEREST	TOTAL REQUIREMENTS
2016	6,700,000	7,865,272	14,565,272
2017	7,120,000	7,449,952	14,569,952
2018	7,375,000	7,191,277	14,566,277
2019	7,730,000	6,835,377	14,565,377
2020	8,115,000	6,455,577	14,570,577
2021 - 2025	46,205,000	26,628,158	72,833,158
2026 - 2030	55,945,000	16,876,905	72,821,905
2031 - 2035	35,485,000	6,740,784	42,225,784
2036 - 2040	13,690,000	1,460,019	15,150,019
TOTAL	\$ 188,365,000	\$ 87,503,320	\$ 275,868,320

Other Long Term Debt

The City has received government loans and other notes to provide for construction of capital projects. The Governmental Activities Public Works Trust Fund loans will be paid from the Real Estate Excise Tax Fund 154. The Business Activities Public Works Trust Fund loans, State Revolving Fund loans, and property purchase loans will be paid from water/sewer revenues.

In 2015 the City has received a bank loan to fund the conversion of approximately 2,300 of the City's streetlights to high-efficiency light emitting diode (LED) lighting. The bank loan will be paid over 15-year period with an APR of 2.97%.

Other long-term debt outstanding, as of December 31, 2015, is presented below:

NAME OF ISSUE/PURPOSE	DATE OF ISSUE	DATE OF FINAL MATURITY	INTEREST RATE(S)	AMOUNT ORIGINALLY ISSUED	REDEMPTIONS TO DATE	DEBT OUTSTANDING
Governmental Activities						
Public Works Trust Fund Loan - 75th Street	09-23-96	07-01-16	2.00%	930,880	873,154	57,726
Public Works Trust Fund Loan - Riverfront	04-28-99	07-01-18	2.00%	1,000,000	837,461	162,539
Public Works Trust Fund Loan - 112th Street	12-22-02	07-01-22	0.50%	1,000,000	614,309	385,691
Tax Exempt Installment Loan - LED Lighting	08-25-15	05-07-30	2.97%	1,169,444	-	1,169,444
Total Governmental Activities				4,100,324	2,324,924	1,775,400
Business Activities						
PWTFL Sewer Basement Flooding Reduction	07-01-01	07-01-21	1.00%	1,881,000	1,287,000	594,000
PWTFL Water Transmission Line	07-01-01	07-01-21	1.00%	4,252,792	2,911,867	1,340,925
PWTFL Cross-Town Effluent Pipeline	05-13-03	07-01-23	0.50%	5,490,000	3,172,000	2,318,000
PWTFL Water Transmission Lines #2-3	11-17-03	11-17-23	0.50%	841,671	482,362	359,309
PWTFL Treatment Plant Upgrade	04-25-05	07-01-25	0.50%	9,500,000	4,222,222	5,277,778
SRF Clearwell No. 2	03-03-06	10-01-25	1.50%	4,040,000	1,814,263	2,225,737
SRF Clearwell No. 2	12-21-07	10-01-26	1.50%	4,040,000	1,701,053	2,338,947
SRF Clearwell No. 2	03-03-08	10-01-27	1.50%	3,030,000	1,116,316	1,913,684
SRF Clearwell No. 2	08-22-08	10-01-29	1.50%	4,040,000	1,266,846	2,773,154
SRF Recovered Water Outfall	08-05-09	10-01-29	1.50%	1,376,473	362,175	1,014,298
SRF Bond Street CSO	10-13-10	10-31-31	2.90%	1,994,497	181,899	1,812,598
PWTFL Water Pollution Facility Expansion	06-25-06	07-01-26	0.50%	7,000,000	2,947,368	4,052,632
WPTFL WPCF Plant Expansnsion Phase C	01-31-13	06-01-32	0.50%	10,000,000	676,880	9,323,120
Mukilteo Water District	01-01-11	09-30-24	7.82%	140,883	65,567	75,315
Leases Payable	05-15-03	07-01-17	2.00-5.00%	54,098	28,866	25,232
Total Business Activities				57,681,414	22,236,684	35,444,730
TOTAL OTHER LONG-TERM DEBT				\$ 61,781,738	\$ 24,561,608	\$ 37,220,130

Annual debt service requirements to maturity for other long-term debt are as follows:

YEAR ENDING DECEMBER 31,	GOVERNMENTAL ACTIVITIES			BUSINESS-TYPE ACTIVITIES		
	PRINCIPAL	INTEREST	TOTAL REQUIREMENTS	PRINCIPAL	INTEREST	TOTAL REQUIREMENTS
2016	230,020	38,862	268,882	3,092,713	348,420	3,441,133
2017	174,166	35,598	209,764	3,087,524	316,913	3,404,437
2018	176,092	32,853	208,945	3,081,183	286,450	3,367,633
2019	123,897	30,051	153,948	3,076,084	256,211	3,332,294
2020	125,941	27,732	153,673	3,078,670	225,973	3,304,644
2021 - 2025	497,243	102,519	599,762	13,469,775	707,999	14,177,774
2026 - 2030	448,041	40,699	488,740	5,143,524	204,140	5,347,664
2031 - 2033	-	-	-	1,415,257	22,296	1,437,553
TOTAL	\$ 1,775,400	\$ 308,314	\$ 2,083,714	\$ 35,444,730	\$ 2,368,402	\$ 37,813,133

Bond Covenants, Limitations and Restrictions

At December 31, 2015, restricted assets of enterprise funds include \$1,309,815 for bond redemption. The City has also purchased a surety policy to cover all outstanding Water and Sewer Revenue Bonds. These represent redemption funds and reserve requirements as contained in the various bond ordinances.

There are a number of other limitations and restrictions contained in the various bond indentures. The City is in compliance with all significant limitations and restrictions.

Debt Limit

RCW 39.36.020 provides cities with three segments of debt capacity, each equal to two and one-half percent of the City's assessed valuation, for a total debt capacity of seven and one-half percent (7.5%). Allowable uses of these segments are as follows:

Segment 1 - General Governmental Purposes

The City can incur debt up to one and one-half percent (1.5%) of its assessed valuation solely with a vote of the legislative body (often referred to as "councilmanic" debt). To use the remaining one percent (1.0%), a 60 percent vote in favor of the issue by at least 40 percent of the voters voting in the last general election is required.

Segment 2 - City-Owned Water and Sewer Purposes

The City can incur debt up to an additional two and one-half percent (2.5%) for water and sewer purposes with a 60 percent vote in favor of the issue by at least 40 percent of the voters voting in the last general election.

Segment 3 - Acquiring and Developing Open Space, Parks Facilities, and Capital Facilities Associated with Economic Development

The City can incur debt up to an additional two and one-half percent (2.5%) for acquiring and developing open space, parks facilities, and capital facilities associated with economic development with a 60 percent vote in favor of the issue by at least 40 percent of the voters voting in the last general election.

At December 31, 2015 the debt limits for the City were as follows:

	Governmental Purposes		Water & Sewer Purposes	Park & Capital Facilities
	<u>Without Vote</u>	<u>With Vote</u>	<u>With Vote</u>	<u>With Vote</u>
	<u>(Councilmanic)</u>			
	1.50%	1.00%	2.50%	2.50%
Legal Limits, Net	\$ 153,477,526	\$ 137,268,616	\$ 343,171,539	\$ 343,171,539
Net Outstanding Indebtedness	52,425,398	-	-	-
Margin Available	\$ 101,052,128	\$ 137,268,616	\$ 343,171,539	\$ 343,171,539

Only general obligation debt is subject to the legal debt limit capacity restrictions. Revenue bonds and Local Improvement District (LID) bonds are not limited because no taxing power or general fund pledge is provided as security.

NOTE 11 - LEASES AND OTHER CONTRACTUAL COMMITMENTS

Lease Receivables

Everett Transit owns transportation hub Everett Station, and leases office and retail space. As of December 31, 2015, the asset cost of Everett Station was \$47,049,382, with accumulated depreciation of \$13,968,951, resulting in a cost net of depreciation of \$33,080,431. Non-cancelable leases provide for minimum annual payments as follows:

Year Ending December 31	Minimum Future Rentals
2016	\$139,757
2017	9,217
Total	<u>\$ 148,974</u>

Operating Leases and Other Contractual Commitments

The City leases equipment and office and storage space under non-cancelable operating leases. Total operating lease expenditures for 2015 were \$558,712 in governmental activities and \$706,541 in business-type activities. The City also contracts for certain professional services such as the management of golf courses and parking facilities and the monitoring and maintenance of equipment such as elevators, heating, ventilation and air conditioning, and fire alarm systems in City buildings. Commitments under lease and professional service contractual agreements provide for minimum annual payments as follows:

Year Ending December 31	Leases	Professional Services
2016	\$ 313,805	\$ 1,265,727
2017	60,600	391,946
2018	60,600	154,684
2019	60,600	100,762
2020	-	53,028
Total	<u>\$ 495,605</u>	<u>\$ 1,966,148</u>

Capital Leases

The City's Water and Sewer Utility Fund have entered into capital leases to finance the acquisition of mail machines. The leases were recorded at the present value of their future minimum lease payments as of the inception date.

The assets acquired through capital leases as of December 31, 2015 appear as follows:

	Governmental Fund	Enterprise Funds
Machinery and equipment	\$ -	\$ 60,557
Less accumulated depreciation	-	(35,325)
Machinery and equipment, net of depreciation	<u>\$ -</u>	<u>\$ 25,232</u>

The future minimum lease obligations and the net present value of minimum lease payments as of December 31, 2015 appear as follows:

Year Ending December 31	Governmental Fund	Enterprise Funds
2016	-	18,153
2017	-	13,614
Total minimum lease payments	-	31,767
Less amounts attributable to interest	-	(2,643)
Net present value of minimum lease payments	\$ -	\$ 29,124

Construction Commitments

As of December 31, 2015, the City had other outstanding contractual commitments, which include construction and engineering contracts for capital projects currently in progress. The City's major significant outstanding contract obligations are summarized as follows:

PROJECT	Expended To Date	Remaining Commitment
Various City facilities Roofing/Siding projects	255,732	13,337
Shore Ave outfall improvements	844,774	684,873
Broadway Bridge replacement	9,565,368	965,065
Grand Avenue Park Bridge Design	1,339,587	410,413
WPCF Phase C Improvements	4,347,654	2,408,033
Water Pollution Control Facility Expansion	22,410,194	9,952,151
Sewer Replacement & Capacity Improvement "L"	2,228,397	707,852
Riverfront Development Projects	12,131,870	2,528,206
Sewer system "M" improvements	10,174,342	2,357,237
Tulalip/Everett Joint Water Pipeling Project	378,200	74,300
Monitoring Sewer Services	1,099,989	455,419
Everett parks improvement projects	1,800,912	306,462
Everett Transit various improvement projects	134,717	244,421
Total	\$66,711,736	\$ 21,107,767

NOTE 12 – CHANGES IN LONG-TERM LIABILITIES

Changes in Long-term Liabilities

During the year ended December 31, 2015, the following changes occurred in long-term liabilities:

	Beginning Balance 01-01-15		Additions	Reductions	Ending Balance 12-31-15	Due Within One Year
Governmental Activities						
Bonds payable:						
General obligation bonds	\$ 48,260,000	\$	-	\$ (1,610,000)	\$ 46,650,000	\$ 2,150,000
Plus deferred amounts:						
For issuance premiums	844,575		-	(70,381)	774,194	70,381
Total bonds payable:	49,104,575		-	(1,680,381)	47,424,194	2,220,381
Governmental loans	772,960		1,169,444	(167,005)	1,775,400	230,020
Pollution remediation liability	5,046,950		-	(3,496,900)	1,550,050	5,000
Capital Leases	-		-	-	-	-
OPEB Obligations	3,849,710		-	(911,136)	2,938,574	-
Accrued General Pension Costs	-		26,159,228	-	26,159,228	-
Fire and Police Pension Liabilities	937,935		594,233	(4,117,756)	(2,585,588)	-
Claims and judgements	13,687,710		14,827,229	(16,190,411)	12,324,528	4,180,846
Compensated absences	10,534,852		7,369,887	(8,465,074)	9,439,666	4,037,472
Governmental activity long-term liabilities:	\$ 83,934,692	\$	50,120,021	\$ (35,028,663)	\$ 99,026,051	\$ 10,673,719
Business-Type Activities						
Bonds payable:						
General obligation bonds	\$ 5,000,000	\$	-	\$ (1,000,000)	\$ 4,000,000	\$ 1,000,000
Revenue bonds	142,965,000		50,525,000	(5,125,000)	188,365,000	6,700,000
Plus deferred amounts:						
For issuance premiums	11,517,951		485,051	(687,927)	11,315,074	706,397
Total bonds payable:	159,482,951		51,010,051	(6,812,927)	203,680,074	8,406,397
Governmental loans	34,650,678		3,870,413	(3,101,593)	35,419,498	3,076,263
Pollution remediation liability	300,000		-	-	300,000	-
Capital leases	40,298		-	(15,066)	25,232	16,450
Accrued Pension Costs	-		19,044,476	-	19,044,476	-
Compensated absences	2,015,600		2,935,792	(2,914,930)	2,036,462	1,264,738
Business-type activity long-term liabilities:	\$ 196,489,527	\$	76,860,732	\$ (12,844,517)	\$ 260,505,742	\$ 12,763,848

Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities related to internal service funds are included as part of the above totals for governmental activities. At year-end \$162,683 of internal service funds compensated absences and \$2,975,931 of internal service funds pension cost liability are included in the above amounts. Also, for governmental activities, claims and judgments and compensated absences are generally liquidated by the general fund.

NOTE 13 – CONTINGENCIES AND LITIGATION

In the normal course of its various operations, the City is involved in lawsuits and is the recipient of claims for damages alleging the City is responsible for damage incurred by third parties. Claims and/or litigation arise in such areas as police civil liability, automobile liability, street and sidewalk design and/or maintenance, zoning, building and other land-use regulations, equipment operation, as well as other areas. These claims or lawsuits are a relatively natural consequence of conducting the City's business. The City of Everett self-insures to cover the majority of its liability risk.

The City has recorded in its financial statements all material liabilities, including an estimate for situations which are not yet resolved, but where, based on available information, management believes it is probable that the City will have to make payment. In the opinion of management, the City's insurance policies and self insurance reserves are adequate to pay all known or pending claims.

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.

NOTE 14 - INTERFUND BALANCES AND TRANSFERS

Loans between funds are classified as either interfund loans receivable and payable or advances to and from other funds, depending on the time period for which the loan was made. The City uses interfund loans primarily to meet short-term cash flow requirements while waiting for grant reimbursements.

Advances to and from other funds are typically loans that are not expected to be repaid within one year from the date of the financial statements. There is currently one outstanding advance between the General Fund and Golf. It was established to internally finance Golf general obligation bonds that were called in 2007 and 2008 and to finance operating deficits that occurred in 2008 and early 2009. All long-term advances have planned repayment schedules.

Interfund loan balances at December 31, 2015 appear as follows:

	INTERFUND LOANS RECEIVABLE	INTERFUND LOANS PAYABLE	ADVANCES TO OTHER FUNDS	ADVANCES FROM OTHER FUNDS
General Fund	\$ 183,100	\$ -	\$ 6,944,168	\$ -
Capital Improvement Reserve	23,640	-	-	-
Water & Sewer Utility	700,200	-	-	-
Nonmajor Governmental Funds	1,313,500	1,520,240	-	-
Nonmajor Enterprise Funds	-	700,200	-	6,944,168
TOTAL	\$ 2,220,440	\$ 2,220,440	\$ 6,944,168	\$ 6,944,168

Due to other funds and due from other funds result from goods issued, work performed or services rendered to or for the benefit of another fund of the same government.

Due to other fund and due from other fund balances at December 31, 2015 appear as follows:

	DUE FROM OTHER FUNDS	DUE TO OTHER FUNDS
General Fund	\$ 22,274	\$ 1,325
Water & Sewer Utility	-	15,051
Transit	37,426	-
Nonmajor Governmental Funds	-	23,489
Nonmajor Enterprise Funds	-	222
Internal service funds	-	19,612
TOTAL	\$ 59,700	\$ 59,700

Interfund transfers are the flow of assets without a reciprocal return of assets, goods or services in return. The City uses transfers to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Interfund transfer activity for the year ending December 31, 2015 appears as follows:

	TRANSFERS IN						TOTAL
	General Fund	Capital Improvement Reserve Fund	Nonmajor Governmental Funds	Enterprise Funds	Internal Service Funds		
TRANSFERS OUT							
General Fund	\$ -	\$ 4,315,000	\$ 745,276	\$ -	\$ 295,000	\$ 5,355,276	
Capital Improvement Reserve Fd	687,407	-	3,371,667	-	-	4,059,074	
Water & Sewer Utility	4,419,680	-	-	-	-	4,419,680	
Transit	152,496	-	-	-	-	152,496	
Nonmajor Governmental Funds	315,238	76,965	5,654,186	-	-	6,046,389	
Internal Service Funds	50,003	-	-	29,000	-	79,003	
TOTAL	\$ 5,624,824	\$ 4,391,965	\$ 9,771,129	\$ 29,000	\$ 295,000	\$ 20,111,918	

A transfer is considered significant if it is for a transaction that does not occur on a routine basis or is inconsistent with the customary activities of the fund making the transfer. In 2015, the following significant transfers were completed;

- \$4,315,000 from Fund 002 – General fund, to Fund 162 – Capital Projects Reserve.
- \$3,774,187 from Fund 119 - Public Works - Street Improvement Fund, a Non-Major Governmental fund, to Fund 303 - Public Works Improvement, a Capital Project fund.
- \$1,367,520 from Fund 162 – Capital Projects Reserve, to Fund 303 - Public Works Improvement, a Capital Project fund.
- \$981,283 from Fund 162 - Capital Projects Reserve, to Fund 210 – Debt Service fund.
- \$687,407 from Fund 162 - Capital Projects Reserve, to Fund 114 - Conference Center Fund – consolidated to General fund.

NOTE 15 – RECEIVABLE AND PAYABLE BALANCES

Receivables at December 31, 2015 appear as follows:

	Taxes	Customer Accounts	Interest	Due from Other Governments	Notes Receivable	TOTAL
Governmental Activities:						
General Fund	\$ 11,500,933	\$ 2,515,069	\$ 90,677	\$ 28,023,760	\$ 82,241	\$ 42,212,678
Capital Improvement Reserve Fund	224,077	26,925	24,105	6,514	-	281,619
Nonmajor Governmental Funds	224,077	26,006	27,656	1,507,510	13,815,549	15,600,796
Internal Service Funds	-	46,154	13,536	49,145	-	108,834
Total Governmental Activities	\$ 11,949,086	\$ 2,614,152	\$ 155,972	\$ 29,586,927	\$ 13,897,789	\$ 58,203,926
Business-Type Activities:						
Water & Sewer Utility	\$ -	\$ 5,745,625	\$ 89,709	\$ 1,429,637	\$ -	\$ 7,264,971
Transit	3,343,028	19,204	5,429	781,553	-	4,149,215
Nonmajor Enterprise Funds	-	205,651	-	164,486	-	370,138
Total Business-Type Activities	\$ 3,343,028	\$ 5,970,481	\$ 95,138	\$ 2,375,677	\$ -	\$ 11,784,325

Governmental Activities

General Fund - Customer Accounts include \$1,661,911 Muni Court receivable and \$665,000 from PFD for Scoreboard
Due from Other Governments include \$27,787,455 from PFD for 2014 Refunding Bonds (See Note 1)
Notes Receivable excludes \$1,057,756 discount on notes reported in the Government Wide Statement of Net Position
The receivables from PFD are not expected to be collected within one year

Payables at December 31, 2015 appear as follows:

	Wages & Benefits	Accounts	Interest	Taxes	Due to Other Governments	Custodial Accounts	Other Liabilities	TOTAL
Governmental Activities:								
General Fund	\$1,255,547	\$1,499,736	\$66,993	\$ -	\$ 141,152	\$ 714,510	\$ 840,388	\$ 4,518,329
Nonmajor Governmental Funds	\$139,865	626,583	-	-	34	-	111	766,595
Internal Service Funds	35,826	602,044	-	2,079	-	-	108,818	748,769
Total	\$ 1,431,239	\$ 2,728,364	\$ 66,993	\$ 2,079	\$ 141,187	\$ 714,510	\$ 949,318	\$ 6,033,692
Business-Type Activities:								
Water & Sewer Utility	\$ 316,274	\$ 2,656,757	\$ 797,689	\$ 132,799	\$ -	\$ -	\$ -	\$ 3,903,519
Transit	186,779	182,842	-	3,069	420,872	-	-	793,562
Nonmajor Enterprise Funds	14,446	326,639	12,708	8,242	-	-	-	362,035
Total	\$ 517,499	\$ 3,166,238	\$ 810,397	\$ 144,110	\$ 420,872	\$ -	\$ -	\$ 5,059,116

The wages and benefits total excludes the following short term vacation and sick leave accruals which are included with non-current liabilities at the entity wide level:

Governmental Activities

Internal Service Fund \$ 105,522

Business-Type Activities

Water and Sewer \$ 817,978
Transit 419,110
Nonmajor Enterprise 27,650

NOTE 16 – JOINT VENTURES

Joint Ventures - The City, in conjunction with other governmental entities, participates in five joint ventures. Using the same criteria applied to the other organizations to determine the reporting entity, these joint ventures have not been included in the City's annual financial statements.

The **Snohomish River Regional Water Authority** (SRRWA) was created for the planning, development, ownership, management and financing of water supply sources and transmission, and other water supply facilities, either by itself or in cooperation with other municipal providers of utilities. The primary purpose is to facilitate efficient water resource development and utilization through interlocal cooperation. The SRRWA board is comprised of one representative of each of three members, who is an elected public official designated in writing, authorized to represent the member in meetings of the membership and Board of Directors. The City has a 41.67 percent interest in the joint venture at December 31, 2015 and recorded an investment in the joint venture in the utility fund of \$669,332. As of December 31, 2015, the SRRWA had accumulated sufficient resources and was not experiencing any fiscal stress. Separate financial statements for the joint venture may be obtained from the City of Everett, Utilities Finance Manager, 3200 Cedar Street, Everett, WA 98201.

The **Snohomish County Emergency Radio System** (SERS), a nonprofit corporation pursuant to chapter 24.06 RCW and IRC 501(c)(3), was established via an interlocal agreement in 1999. Member entities include Snohomish County, Fire District 1, and the Cities of Brier, Edmonds, Lynnwood, Marysville, Mill Creek, Mountlake Terrace, Mukilteo, Woodway, and Everett. The purpose of SERS is to develop, operate and maintain a countywide public safety communications system. The governing board consists of ten directors, one appointed by each City and County member, with the authority to take all actions on behalf of SERS. A cost allocation model is used to determine each Member's share of financial obligations and voting weight from time to time. The cost allocation model is reviewed and recalculated annually to reflect population, geographic service area and calls for service from January 1 through December 31 of each year. As of December 31, 2015, the City has a 14.84 percent interest in the SERS joint venture and a recorded equity interest of \$1,468,971. Based on summary financial information provided to the City by Snohomish County, it does not appear that SERS is experiencing any fiscal stress. Separate financial statements for the joint venture may be obtained from Snohomish County, Finance Department, 3000 Rockefeller Avenue, Everett, WA 98201.

One Regional Card for All (ORCA) was established by interlocal agreement for the operating phase of the Regional Fare Integration Project also known as the Smart Card Project. This ten-year agreement among City of Everett (Everett Transit), Snohomish County Transit Authority (Community Transit), Sound Transit, King County Metro, Pierce Transit, Kitsap Transit and Washington State Ferries commenced April 1, 2009. Pursuant to the Interlocal Cooperation Act, chapter 39.34 RCW, the participating agencies jointly exercise their powers to better coordinate their respective services and fare payment systems in order to improve the availability, reliability and convenience of public transportation services within their service areas and throughout the region served by the agencies. Everett Transit's undivided interest in the assets, liabilities and operations of the ORCA smart card are consolidated within these financial statements on a proportionate basis. Everett Transit's interest in the central cash accounts as of December 31, 2015, is \$130,270 which represents unearned fare revenue. Everett Transit's percentage share of the operating expense for 2015 was 1.02%. Separate financial statements for the joint venture may be obtained from Sound Transit, ORCA Regional Fare Coordination System, 401 S Jackson St, Seattle, WA 98104-2826.

The **Snohomish County Police Staff and Auxiliary Services Center** (SNOPAC) a cash basis, special purpose district was created under the Interlocal Cooperation Act as codified in RCW 39.34, with the City of Everett Police and Fire in addition to other 36 Police and Fire entities. This established the statutory authority necessary for Snohomish County, the Cities, Towns, Fire Districts, Police Districts and other service districts to enter into a contract and agreement to jointly establish, maintain and operate a support communications center. The control of SNOPAC is with an 11 member Board of Directors which is specified in the Interlocal Agreement. SNOPAC takes 911 calls, and performs emergency dispatch services for local governmental agencies including police, fire and medical aid. As of December 31, 2015, the City of Everett's share of total ending cash balance was \$5,329,135, which was calculated by multiplying ending cash balance by 2015 Operating Assessment percentage .

In the event of the dissolution of SNOPAC, any money in the possession of SNOPAC or the Board of Directors after payment of all costs, expenses and charges validly incurred will be returned to the parties to the agreement in portion to the contribution during the fiscal year of dissolution. Separate financial statements for SNOPAC can be obtained from SNOPAC's administrative office at 1121 SE Everett Mall Way, Suite 200, Everett, WA 98208.

The Alliance for Housing Affordability (AHA) was created in 2013 by the City of Everett and eleven other jurisdictions within Snohomish County to cooperatively formulate affordable housing goals and policies and to foster efforts to provide affordable housing by providing expertise and information to member jurisdictions. The AHA is governed by a Joint Board composed of an elected official from the jurisdictions. The Joint Board is responsible for review and approval of all budgetary, financial, policy, and contractual matters. The Board is assisted by an administrative staff housed at the Housing Authority for Snohomish County. Fiscal agent duties are performed by the City of Mountlake Terrace. Operating funding is provided by the member cities based on each member's population. The City of Everett population makes up approximately 15.29% of total member's population. The City's contribution for 2015 is as follows:

Fiscal Year 7/1/15-6/30/2016	AHA's total Fiscal Year Budget	City of Everett's Share of Budget	City of Everett's Share % of Total AHA Budget
2015	\$123,464	\$7,914	6.41%

Members withdrawing from the agreement relinquish all rights to any reserve funds, equipment, or material purchased. Upon dissolution, the agreement provides for distribution of net assets among the members based on the percentage of the total annual contributions during the period of the Agreement paid by each member.

Budget monitoring information can be obtained from Alliance for Housing Affordability, 12625 4th Ave W, Suite 200, Everett, WA 98204 or City of Mountlake Terrace at 6100 219th St SW, Mountlake Terrace, WA 98043.

NOTE 17 – POLLUTION REMEDIATION OBLIGATIONS

The City recorded the following pollution remediation obligations as other liabilities in its financial statements as of December 31, 2015, in accordance with GASB Statement No. 49:

SITE	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES
4000 Block South Second Avenue	\$ 1,400,000	
2731 36 th Street Southeast	100,000	
2808 10 th Street	50,050	
144 West Marine View Drive		\$ 300,000
TOTALS	\$ 1,550,050	\$ 300,000

The City identified a release of contaminants at the 4000 block of South Second Avenue, Everett, Washington, and is pursuing a Voluntary Cleanup Program (VCP) agreement with the Washington State Department of Ecology (DOE). As of December 31, 2015, the City estimated the liability with regard to pollution remediation at this site to be \$1,400,000.

The City identified a release of contaminants at 2731 36th Street Southeast, Everett, Washington, and entered into a VCP agreement with the DOE to remediate the site in previous periods. The City remediated the site during 2010 and continued to test the site. Because the site is under a steady state interim action, the VCP agreement with Ecology has lapsed; at the completion of the interim action, a VCP agreement is expected to be re-engaged. As of December 31, 2015, the City concluded that additional remediation was needed, and estimated the liability with regard to pollution remediation at this site to be \$100,000.

The site located at 2808 10th Street, Everett, Washington was identified as contaminated by releases from the neighboring former ASARCO plant. As of December 31, 2015, the City estimated the liability with regard to pollution remediation at this site to be \$50,050.

The site located at 144 West Marine View Drive, Everett, Washington had previously been identified as contaminated by releases from the neighboring former ASARCO plant. The City voluntarily remediated the site in 1998 in conjunction with a VCP agreement with the DOE. The City had expected to receive a notice of no further action from the DOE upon completion of the DOE's Final Cleanup Action Plan for ASARCO. The City's original VCP agreement expired, a new VCP agreement was reinstated in 2008, and the DOE requested the City to send the DOE an analysis of current soil samples at the site. The City engaged an independent engineering firm to analyze soil samples at the site and submit its findings to the DOE, this work was performed during 2009, and the City submitted several alternative remediation proposals to the DOE for consideration. As of December 31, 2015, the City estimated liability with regard to pollution remediation at this site to be \$300,000.

The estimated liability for each of these sites was prepared using the Expected Cash Flow Technique, which measures the liability as the sum of probability-weighted amounts in a range of possible estimated amounts. This is an estimate only, and potential for change exists resulting from price fluctuations, technology changes or changes in applicable laws or regulations. The estimates and underlying assumptions will be re-evaluated on an annual basis.

NOTE 18 - OTHER DISCLOSURES

A. CHANGES IN ACCOUNTING PRINCIPLES

During the year ended December 31, 2015 the City of Everett implemented GASB Statement No. 68, Financial Reporting for Pensions, and Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date. The objectives of these statements are to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. The provisions of this standard have been incorporated into the financial statements and the notes (see note 1).

B. SPECIAL ITEMS

The State of Washington received funds through settlement in the bankruptcy of ASARCO for the remediation of hazardous substances, to clean up three city parks in the Everett Smelter Cleanup site. The funds are to be expended directly by the State Department of Ecology. Prior year accruals of \$3,496,900 were reduced as a result of this assumption of responsibility by the State.

C. PRIOR PERIOD ADJUSTMENTS

In 2008, the City entered into an agreement with Touchstone Corporation for the sale of land known as the Allen Buick property. As of 2015, certain conditions of the sale agreement were substantially satisfied so as to allow recognition of sale revenue of \$1,584,000 and the disposition of land with a basis of \$721,692. This resulted in a net prior period adjustment of \$862,307. The sale revenue was computed as the value of 48 indoor parking spaces for which Touchstone will record a parking easement. This approximates the sale price stated in the original agreement. The parking easement is recorded as CWIP until such time as the parking spaces are ready for use.

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES-

BUDGET AND ACTUAL

**SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND
FOR YEAR ENDED DECEMBER 31, 2015**

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET - POSITIVE (NEGATIVE)
REVENUES				
Taxes	\$ 78,557,912	\$ 78,464,781	\$ 80,349,818	\$ 1,885,037
Licenses and permits	3,376,461	3,376,461	4,945,503	1,569,042
Intergovernmental revenues	2,381,441	3,111,090	3,032,056	(79,034)
Charges for services	8,033,224	7,924,533	8,789,101	864,568
Fines and forfeits	1,770,850	1,770,850	1,604,770	(166,080)
Other revenues	924,050	924,050	1,035,775	111,725
TOTAL REVENUES	95,043,938	95,571,765	99,757,023	4,185,258
EXPENDITURES				
Current:				
General government services	22,064,462	23,906,039	26,250,573	(2,344,534)
Security of persons and property	61,986,773	62,696,838	59,173,882	3,522,956
Transportation	3,978,822	4,131,002	3,987,588	143,414
Economic environment	5,711,019	6,237,851	5,382,531	855,320
Mental and physical health	939,421	957,094	900,306	56,788
Culture and recreation	670,041	670,041	755,533	(85,492)
Capital outlay	40,966	128,966	159,654	(30,688)
TOTAL EXPENDITURES	95,391,504	98,727,831	96,610,067	2,117,764
Excess (deficiency) of revenues over (under) expenditures	(347,566)	(3,156,066)	3,146,956	6,303,022
OTHER FINANCING SOURCES (USES)				
Transfers in	4,891,913	4,891,913	4,848,155	(43,758)
Transfers out	(4,544,347)	(12,143,112)	(6,691,074)	5,452,038
Total other financing sources (uses)	347,566	(7,251,199)	(1,842,919)	5,408,280
Net change in fund balances	-	(10,407,265)	1,304,037	11,711,302
Fund balances - beginning	24,700,000	34,991,765	68,177,957	33,186,192
FUND BALANCES - ENDING	\$ 24,700,000	\$ 24,584,500	\$ 69,481,994	\$ 44,897,494

**SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
CAPITAL IMPROVEMENT RESERVE FUND
FOR YEAR ENDED DECEMBER 31, 2015**

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET - POSITIVE (NEGATIVE)
REVENUES				
Taxes	\$ 1,664,171	\$ 1,664,171	\$ 2,025,867	\$ 361,696
Other revenues	483,430	483,430	442,765	(40,665)
TOTAL REVENUES	2,147,601	2,147,601	2,468,632	321,031
EXPENDITURES				
Current:				
Culture and recreation	500,000	1,165,000	1,165,000	-
TOTAL EXPENDITURES	500,000	1,165,000	1,165,000	-
Excess (deficiency) of revenues over (under) expenditures	1,647,601	982,601	1,303,632	321,031
OTHER FINANCING SOURCES (USES)				
Transfers in	800,000	800,000	4,391,965	3,591,965
Transfers out	(2,969,683)	(5,037,203)	(4,059,074)	978,129
Total other financing sources (uses)	(2,169,683)	(4,237,203)	332,891	4,570,094
Net change in fund balances	(522,082)	(3,254,602)	1,636,523	4,891,125
Fund balances - beginning	13,629,832	15,352,332	16,012,751	660,419
FUND BALANCES - ENDING	\$ 13,107,750	\$ 12,097,730	\$ 17,649,274	\$ 5,551,544

Required Supplementary Information
Schedule of Revenues, Expenditures, and Changes in
Fund Balances – Budget and Actual
Note to RSI

Note A – Explanation of Difference between General Fund Budgetary Revenues and Expenditures and GAAP Revenues and Expenditures

Revenues

Actual Amount \$ 99,757,023

Differences - Budget to GAAP

Add funds no longer meeting the definition of special
revenue funds per GASB Statement No. 54 to General Fund

Parks & Recreation Fund	9,511,333
Library Fund	5,043,585
Municipal Arts Fund	874,433
Conference Center Fund	93,446
Motor Vehicle Equip Repl Fund	115,955
Downtown Improvement Fund	14
Cum Reserve Real Prop Acq Fund	92,200
Property Management Fund	696,619
Senior Center Reserve Fund	64,383
Contingency Reserve Fund	<u>14,971</u>

Total revenues as reported on the statement of revenues,
expenditures, and changes in fund balance - general fund

\$ 116,263,962

Expenditures

Actual Amount \$ 96,610,067

Differences - Budget to GAAP

Add funds no longer meeting the definition of special
revenue funds per GASB Statement No. 54 to General Fund

Parks & Recreation Fund	9,248,895
Library Fund	4,926,466
Municipal Arts Fund	918,850
Conference Center Fund	16,519
General Gov't Special Proj Fund	85,486
Motor Vehicle Equip Repl Fund	1,582,493
Cum Reserve Real Prop Acq Fund	104,307
Property Management Fund	2,929,547
Senior Center Reserve Fund	<u>57,811</u>

Total expenditures as reported on the statement of revenues,
expenditures, and changes in fund balance - general fund

\$ 116,480,441

City of Everett
Schedule of Proportionate Share of the Net Pension Liability
Public Employee's Retirement System Plan 1
As of June 30, 2015
Last 1 Fiscal Year*

	<u>2015</u>
Employer's proportion of the net pension liability (asset)	% 0.479404%
Employer's proportionate share of the net pension liability	\$ 25,077,288
 TOTAL	 \$ 25,077,288
Employer's covered employee payroll	\$ 1,971,755
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	% 1271.83%
Plan fiduciary net position as a percentage of the total pension liability	% 59.10%

* This schedule will be 10 years as information is available

City of Everett
Schedule of Proportionate Share of the Net Pension Liability
Public Employee's Retirement System Plans 2 and 3
As of June 30, 2015
Last 1 Fiscal Year*

	<u>2015</u>
Employer's proportion of the net pension liability (asset)	% 0.562203%
Employer's proportionate share of the net pension liability	\$ 20,087,834
 TOTAL	 \$ 20,087,834
Employer's covered employee payroll	\$ 49,891,102
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	% 40.26%
Plan fiduciary net position as a percentage of the total pension liability	% 89.20%

* This schedule will be 10 years as information is available

City of Everett
Schedule of Proportionate Share of the Net Pension Liability
LEOFF 1
As of June 30, 2015
Last 1 Fiscal Year*

	<u>2015</u>
Employer's proportion of the net pension liability (asset) _____ %	0.431425%
Employer's proportionate share of the net pension liability _____ \$	-5,199,625
Employer's covered employee payroll _____ \$	303,933
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll _____ %	-1710.78%
Plan fiduciary net position as a percentage of the total pension liability _____ %	127.36%

* This schedule will be 10 years as information is available

City of Everett
Schedule of Proportionate Share of the Net Pension Liability
LEOFF 2
As of June 30, 2015
Last 1 Fiscal Year*

	<u>2015</u>
Employer's proportion of the net pension liability (asset) _____ %	1.945509%
Employer's proportionate share of the net pension liability _____ \$	-19,995,942
State's proportionate share of the net pension liability (asset) associated with the employer _____ \$	1,134,991
TOTAL _____ \$	-18,860,951
Employer's covered employee payroll _____ \$	33,991,127
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll _____ %	-55.49%
Plan fiduciary net position as a percentage of the total pension liability _____ %	111.67%

* This schedule will be 10 years as information is available

City of Everett
Schedule of Proportionate Share of the Net Pension Liability
PSERS 2
As of June 30, 2015
Last 1 Fiscal Year*

	<u>2015</u>
Employer's proportion of the net pension liability (asset) %	0.211384%
Employer's proportionate share of the net pension liability \$	38,582
TOTAL \$	38,582
Employer's covered employee payroll \$	619,475
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll %	6.23%
Plan fiduciary net position as a percentage of the total pension liability %	95.08%

* This schedule will be 10 years as information is available

City of Everett
Schedule of Employer Contributions
PERS 1
As of December 31, 2015
Last 1 Fiscal Year*

	<u>2015</u>
Statutorily or contractually required contributions	\$ 193,616
Contributions in relation to the statutorily or contractually required contributions	\$ (193,616)
Contribution deficiency (excess)	\$ <u>0</u>
Covered employer payroll	\$ 1,929,092
Contributions as a percentage of covered employee payroll	% 10.04%

* This schedule will be 10 years as information is available

City of Everett
Schedule of Employer Contributions
PERS 2 & 3
Schedule of Employer Contributions
Last 1 Fiscal Year*

	<u>2015</u>
Statutorily or contractually required contributions	\$ 5,358,714
Contributions in relation to the statutorily or contractually required contributions	\$ (5,358,714)
Contribution deficiency (excess)	\$ <u>0</u>
Covered employer payroll	\$ 52,992,606
Contributions as a percentage of covered employee payroll	% 10.11%

* This schedule will be 10 years as information is available

City of Everett
Schedule of Employer Contributions
LEOFF 1
As of December 31, 2015
Last 1 Fiscal Year*

	<u>2015</u>
Statutorily or contractually required contributions	\$ 465
Contributions in relation to the statutorily or contractually required contributions	\$ (465)
Contribution deficiency (excess)	\$ <u>0</u>
Covered employer payroll	\$ 258,334
Contributions as a percentage of covered employee payroll	% 0.18%

* This schedule will be 10 years as information is available

City of Everett
Schedule of Employer Contributions
LEOFF 2
As of December 31, 2015
Last 1 Fiscal Year*

	<u>2015</u>
Statutorily or contractually required contributions	\$ 1,913,878
Contributions in relation to the statutorily or contractually required contributions	\$ (1,913,878)
Contribution deficiency (excess)	\$ <u>0</u>
Covered employer payroll	\$ 36,552,006
Contributions as a percentage of covered employee payroll	% 5.24%

* This schedule will be 10 years as information is available

City of Everett
Schedule of Employer Contributions
PSERS 2
As of December 31, 2015
Last 1 Fiscal Year*

	<u>2015</u>
Statutorily or contractually required contributions	\$ 74,288
Contributions in relation to the statutorily or contractually required contributions	\$ (74,288)
Contribution deficiency (excess)	<u>0</u>
Covered employer payroll	\$ 675,627
Contributions as a percentage of covered employee payroll	% 11.00%

* This schedule will be 10 years as information is available

OTHER POST EMPLOYMENT BENEFIT FUNDS

Schedule of Contributions from the Employer and Other Contributing Entities

	FIRE HEALTHCARE FUND		POLICE HEALTHCARE FUND	
	Annual	Percentage	Annual	Percentage
<u>Year</u>	<u>Required Contribution</u>	<u>Contributed</u>	<u>Required Contribution</u>	<u>Contributed</u>
2015	\$ 537,048	175%	\$ 838,394	149%
2014	1,242,997	4%	1,128,913	5%
2013	1,185,523	4%	1,075,155	5%
2012	1,346,074	4%	1,093,904	5%
2011	1,285,206	4%	1,041,812	5%
2010	1,070,125	4%	1,012,705	4%
2009	1,021,664	37%	964,481	42%

Schedules of Funding Progress

The actuarial cost method used in the valuation of the OPEB plans is the Entry Age Cost Method.

FIRE HEALTHCARE FUND							
Actuarial	Actuarial Value	Actuarial	Unfunded	Funded	Covered	UAAL as a	
Valuation	of Assets	Accrued Liability	AAL	Ratio	Payroll	% of Covered	
Date	(a)	(AAL) - Entry Age	(UAAL)	(a / b)	(c)	((b - a) / c)	
12/31/2014	\$ 18,761,000	\$ 35,200,000	\$ 16,439,000	53.30%	\$ 286,646	5734.95%	
12/31/2012	21,357,000	44,494,000	23,137,000	48.00%	622,642	3715.94%	
12/31/2010	21,855,000	48,265,000	26,410,000	45.28%	891,440	2962.62%	
12/31/2008	23,159,000	48,250,000	25,091,000	48.00%	1,019,299	2461.59%	

POLICE HEALTHCARE FUND							
Actuarial	Actuarial Value	Actuarial	Unfunded	Funded	Covered	UAAL as a	
Valuation	of Assets	Accrued Liability	AAL	Ratio	Payroll	% of Covered	
Date	(a)	(AAL) - Entry Age	(UAAL)	(a / b)	(c)	((b - a) / c)	
12/31/2014	\$ 11,970,000	\$ 26,092,000	\$ 14,122,000	45.88%	\$ 239,221	5903.33%	
12/31/2012	13,715,000	32,602,000	18,887,000	42.10%	362,732	5206.87%	
12/31/2010	14,592,000	34,951,000	20,359,000	41.75%	767,633	2652.18%	
12/31/2008	15,633,000	36,365,000	20,732,000	42.99%	880,684	2354.08%	

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended December 31, 2015

SCHEDULE 16

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	From Pass-Through Award	From Direct Award	Total	Pass through to Subrecipients	Note
US Dept of Agriculture (WA Dept of Natural Resources)	Cooperative Forestry Assistance	10.664	N/A	500	-	500	-	
US Dept of HUD	Community Development Block Grants/Entitlement Grants	14.218	N/A		132,453			
US Dept of HUD	Community Development Block Grants/Entitlement Grants	14.218	Program Income		506,806			3a
US Dept of HUD	Community Development Block Grants/Entitlement Grants	14.218	N/A		593,356			
US Dept of HUD	Community Development Block Grants/Entitlement Grants	14.218	Program Income Sub-Total		429		406,087	3a,6
				-	1,233,044	1,233,044	406,087	
US Dept of HUD (SnoCo Human Services)	Home Investment Partnership Program	14.239	N/A	40,785			35,000	6
US Dept of HUD (SnoCo Human Services)	Home Investment Partnership Program	14.239	Program Income Sub-Total	256,592				3a
				297,377	-	297,377	-	
US Dept of Justice	Safe Streets Task Force	6.281D-SE-9338	N/A	-	1,486	1,486	-	
US Dept of Justice (SnoCo Sheriff)	Edward Byrne Memorial Formula Grant Program	16.579	F97-374-017	59,260	-	59,260	-	
US Dept of Justice (WA Dept of Commerce)	Violence Against Women Formula Grants	16.588	N/A	24,926	-	24,926	-	
US Dept of Justice	Bullet Proof Vest Partnership Program	16.607	N/A	-	6,848	6,848	-	
US Dept of Justice	Edward Byrne Memorial Justice Assistance Grant Program	16.738	2012-DJ-BX-0342		8,131			
US Dept of Justice	Edward Byrne Memorial Justice Assistance Grant Program	16.738	Program Income		74			3b
US Dept of Justice	Edward Byrne Memorial Justice Assistance Grant Program	16.738	2013-DJ-BX-0208		30,241			
US Dept of Justice	Edward Byrne Memorial Justice Assistance Grant Program	16.738	Program Income		475			3b
US Dept of Justice	Edward Byrne Memorial Justice Assistance Grant Program	16.738	2014-DJ-BX-0195		70,539			
US Dept of Justice	Edward Byrne Memorial Justice Assistance Grant Program	16.738	Program Income Sub-Total		768			3b
				-	110,228	110,228	-	
US DOT FHWA (WA DOT)	Highway Planning and Construction	20.205	STPUL-9999(651)	5,073				5a
US DOT FHWA (WA DOT)	Highway Planning and Construction	20.205	CM-0099(104)	22,755				5a
US DOT FHWA (WA DOT)	Highway Planning and Construction	20.205	STPD-BRM-2715(009)	6,300,176				
US DOT FHWA (WA DOT)	Highway Planning and Construction	20.205	STPUL-9931(012)	61,758				5b
US DOT FHWA (WA DOT)	Highway Planning and Construction	20.205	HSIP-000S(330)	26,419				
US DOT FHWA (WA DOT)	Highway Planning and Construction	20.205	HSIP000S(331)	24,804				
US DOT FHWA (WA DOT)	Highway Planning and Construction	20.205	SRTS-0420(021)	8,500				
US DOT FHWA (WA DOT)	Highway Planning and Construction	20.205	STPUL-9931(015)	986,607				
US DOT FHWA (WA DOT)	Highway Planning and Construction	20.205	CM-STPE-0420(0180) Sub-Total	5,421				
				7,441,513	-	7,441,513	-	
US DOT FTA	Federal Transit-Formula Grants	20.507	FY11 5307		2,499			
US DOT FTA	Federal Transit-Formula Grants	20.507	FY12 5307		4,552			
US DOT FTA	Federal Transit-Formula Grants	20.507	FY14 5307		24,500			
US DOT FTA	Federal Transit-Formula Grants	20.507	FY14 5307 Sub-Total		466,034			
				-	497,585	497,585	-	

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

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended December 31, 2015

SCHEDULE 16

	Federal Prog Name	CFDA Number	Other ID Number	From Pass-Through Award	From Direct Award	Total	Pass through to Subrecipients	Note
US DOT (WA Traffic Safety Comm)	State and Community Highway Safety	20.600	N/A	6,713				
US DOT (WA Traffic Safety Comm)	State and Community Highway Safety	20.600	N/A	2,866				
US DOT (WA Traffic Safety Comm)	State and Community Highway Safety	20.600	N/A	3,720				
			Sub-Total	13,299	-	13,299	-	
Inst of Museum & Lib (WA Library)	Grants to States	45.310	14-CE-034	750	-	750	-	
US EPA	Brownfields Assessment and Cleanup Cooperative Agreements	66.818	BF-00J79301-0	-	125,923	125,923	-	
Exec. Off. of the President (WA Military Department/SnoCo)	High Intensity Drug Trafficking Areas Program	95.001	N/A	7,635	-	7,635	-	4
US DHS (WA Parks & Rec Comm)	Boating Safety Financial Assistance	97.012	N/A	18,206	-	18,206	-	
US DHS (WA Military Department)	Disaster Grants - Public Assistance	97.036	D12-141	6,135	-	6,135	-	
US DHS (WA Military Department)	Hazard Mitigation Grant	97.039	D15-002	57,763	-	57,763	-	
US DHS (WA Military Department)	Emergency Management Performance Grants (EMPG)	97.042	E15-137	58,731	-	58,731	-	
US DHS (City of Seattle)	Port Security Grant Program	97.056	N/A	5,070	-	5,070	-	
US DHS (WA Military Department/City of Seattle)	State And Local Homeland Security Exercise Support	97.067	UASI FFY2013	18,341				- 4
US DHS (Snohomish County)	Homeland Security Grant Program	97.067	E14-091	87,360				-
US DHS (Snohomish County)	Homeland Security Grant Program	97.067	E15-090	144,816				-
US DHS (WA Military Department)	Homeland Security Grant Program	97.067	E15-091	8,334				-
			Sub-Total	258,851	-	258,851		
Total Federal Awards Expended				8,250,016	1,975,114	10,225,130	441,087	

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

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE AND LOCAL FINANCIAL ASSISTANCE

NOTE 1 - BASIS OF ACCOUNTING

This schedule is prepared on the same basis of accounting as the City's financial statements. The City uses the full accrual basis of accounting to account for its grants. Under the full accrual basis, revenues are recognized when earned, if measurable, and expenses are recognized when incurred, if measurable.

NOTE 2 - PROGRAM COSTS

The amounts shown as current year expenditures represent only the federal portion of program costs. Actual program costs, including the City's share, may be more than shown. Such expenditures are recognized following, as applicable, either the cost principles in the OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments, or the cost principles contained in Title 2 US Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The City has not elected to use the 10% de minimis cost rate as covered in 2 CFR §200.414 Indirect (F&A) costs.

NOTE 3 - PROGRAM INCOME

- a) The City has a revolving loan program for low-income housing. Repayments to the City are considered program revenues (income) and loans of such funds to eligible recipients are considered expenditures.
- b) The City earns investment interest on unexpended Edward Byrne Memorial Grant funds. Interest revenue (program income) for the year is presented in this schedule.

NOTE 4 – NONCASH AWARDS- EQUIPMENT

The City received equipment and supplies that were purchased with federal Homeland Security funds by the Snohomish County and the City of Seattle. The amount reported on the schedule is the fair value of the property on the date it was received by the City and priced by the City of Seattle.

NOTE 5 – AWARD FOR PRIOR YEAR EXPENDITURE

- a) The City received additional award after the program was completed from grantor. The amount represents prior years' expenditure and was not included in 2014's SEFA.
- b) The expenditure includes \$18,214 expended in 2014. This amount was not included in 2014's SEFA.

NOTE 6 – PASS THROUGH TO SUBRECIPIENTS

The City awarded \$406,087 from the Community Development Block Grant program to 26 non-profit agencies in 2015. The City also awarded \$35,000 to HomeSite for first time home buyer down payment assistance program.

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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

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