



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

City of Marysville

Snohomish County

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

Published August 14, 2017

Report No. 1019430





Office of the Washington State Auditor
Pat McCarthy

August 14, 2017

Mayor and City Council
City of Marysville
Marysville, Washington

Report on Financial Statements

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

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

Sincerely,

Pat McCarthy
State Auditor
Olympia, WA

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**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 Marysville
Snohomish County
January 1, 2016 through December 31, 2016**

Mayor and City Council
City of Marysville
Marysville, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Marysville, Snohomish County, Washington, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 23, 2017.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

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



Pat McCarthy

State Auditor

Olympia, WA

June 23, 2017

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

City of Marysville Snohomish County January 1, 2016 through December 31, 2016

Mayor and City Council
City of Marysville
Marysville, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Marysville, Snohomish County, Washington, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed on page 9.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Marysville, as of December 31, 2016, 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 – Correction of Prior Year Misstatement

As discussed in Note 2 to the financial statements, the 2015 financial statements have been restated to correct a misstatement. 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 10 through 19, budgetary comparison information on pages 60 through 61, pension plan information on pages 62 through 66 and information on postemployment benefits other than pensions on page 67 and be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other

knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated June 23, 2017 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

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

Pat McCarthy

State Auditor

Olympia, WA

June 23, 2017

FINANCIAL SECTION

**City of Marysville
Snohomish County
January 1, 2016 through December 31, 2016**

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2016

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2016

Statement of Activities – 2016

Balance Sheet – Governmental Funds – 2016

Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position –
2016

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

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

Statement of Net Position – Proprietary Funds – 2016

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

Statement of Cash Flows – Proprietary Funds – 2016

Statement of Net Position – Fiduciary Funds – 2016

Notes to Financial Statements – 2016

REQUIRED SUPPLEMENTARY INFORMATION

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

Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual
– Fund 101 – Street Fund – 2016

Schedule of Proportionate Share of the Net Pension Liability – 2016

Schedule of Employer Contributions – 2016

Other Post-Employment Medical Benefits (OPEB) – Schedule of Funding Progress –
2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Marysville presents this discussion and analysis of its financial performance to provide an overview of the City's financial activities for fiscal year ended December 31, 2016. We encourage readers to consider the information presented here in conjunction with the accompanying basic financial statements and the associated notes.

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of the City of Marysville exceed its liabilities and deferred inflows at the close of December 31, 2016 by approximately \$ 310.6 million (net position) an increase of \$ 16.4 million or 5.6%. Of this amount, unrestricted net position totals \$ 48.1 million and may be used to meet the City's ongoing obligations to citizens and creditors. Restricted net position totals \$ 7.8 million and are subject to external restrictions on how it may be used.
- As of December 31, 2016, the City's governmental activities reported a combined ending fund balance of \$ 170.8 million, an increase of \$ 15.9 million from 2015. Approximately 14.3% of this amount (\$ 24.4 million) is available for spending at the City's discretion.
- The City's total long-term outstanding debt decreased by \$ 3.4 million during calendar year 2016. The \$ 2.3 million increase in net pension expense was offset by the \$ 6.2 reduction to principal payments and amortization of premiums.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction the City of Marysville's basic financial statements. The basic statements include three components: 1) government-wide financial statements; 2) fund financial statements; and 3) notes to the financial statements. This report contains other supplementary information in addition to the basic financial statements and required information.

Government-Wide Financial Statements

The Government-Wide Financial Statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business. The statements present the financial picture of the City from the economic resources measurement focus using the accrual basis of accounting. They present governmental activities and business-type activities separately. Additionally, certain eliminations have occurred in regards to interfund activity, payable and receivables.

The Statement of Net Position presents financial information on all of the City of Marysville's assets, liabilities and deferred inflows/outflow resources, with the difference reported as net position. Evaluating increases or decreases over time can serve as a useful indicator of whether the financial position of the city is improving or declining.

The Statement of Activities present information on the net cost of each governmental and business-type function during the fiscal year. The statement distinguishes revenue generated by specific functions from revenue provided by taxes and other sources not related to a specific function. The revenue generated by the specific functions (charges for services, grants, and contributions) is compared to the expenses for those functions to show the degree to which each function supports itself or relies on taxes and other general funding sources for support. All activity on this statement is reported on the accrual basis of account requiring the revenues are reported when they are earned and expenses are reported when they are incurred, regardless of when cash is received or disbursed.

In the Statement of Activities, we separate the City activities as follows:

Governmental Activities – most of the City's basic services are reported in this category, including General Government, Municipal Court, Police, Fire, Engineering, Parks/Recreation, Community Development, Street Maintenance, and General Government Debt Service. Property and sales taxes, user fees, interest income, franchise fees, and state and federal shared revenues and grants generally finance these activities.

Business-Type Activities – The City's Waterworks Utility, Solid Waste, and Golf Course Funds are reported in this category. These types of activities are funded by the City charging a fee to customers to cover all or most of the cost of certain services it provides.

Fund Financial Statements

The Fund Financial Statements include statements for each of the three categories of activities – governmental, business-type and fiduciary. The governmental activities are prepared using the current financial resources measurement focus and modified accrual basis of accounting. The business-type activities are prepared using the economic resources measurement focus and the accrual basis of accounting. The fiduciary activities are agency funds, which only report assets and liabilities, and do not have a measurement focus. Reconciliations of the Fund Financial Statements to the Government-Wide Financial Statements are provided to explain the differences created by the integrated approach.

The City, like other state and local governments, uses fund accounting to account for a number of funding sources and activities. In general, fund accounting provides a mechanism for separately accounting for a variety of different funding sources, and enables the City to demonstrate compliance with legal and/or contractual requirements that may be associated with these funds. Thus, the accompanying fund financial statements present individual funds, organized into one of three groups based on the nature of the activities and the purpose: Governmental, Proprietary or Fiduciary Funds. Note that the fund financial statements also include “other governmental funds” on the governmental funds, and “other enterprise funds” on the proprietary funds. In addition, the fund financial statements include a schedule that reconciles the fund financial statements to the Government-Wide Financial Statements.

Governmental Funds – Most of the City’s basic services are reported in the governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City’s general government operations and the basic services it provides to its citizens. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City’s programs. The differences between the results shown in the Governmental fund financial statements and those shown in the Government-Wide financial statements are explained in a reconciliation schedule following each Governmental Fund financial statement.

Proprietary Funds – When the City charges customers for the service it provides, whether to outside City customers or to other units of the City, these services are generally reported in proprietary funds. Proprietary funds include two components 1) enterprise funds and 2) internal service funds. Proprietary funds are reported in the same manner that all activities are reported in the Statement of Net Position and the Statement of Revenues, Expenses and Changes in Fund Net Position. In fact, the City’s enterprise funds are the same as the business-type activities reported in the governmental-wide statement, but provide more detail and additional information, such as cash flows, for proprietary funds. Internal service funds are used to report activities that provide supplies and services for the City’s other programs and activities – such as fleet maintenance, facility maintenance, and computer maintenance funds. Because these funds largely benefit government rather than business-type functions, they are reported with governmental activities in the government-wide financial statements.

Fiduciary Fund – The City is the trustee, or fiduciary for certain funds held on behalf of various third parties. The City’s fiduciary activities are reported in a separate Statement of Fiduciary Assets and Liabilities. These type of activities are excluded from the City’s other financial statements because the City cannot use these assets to finance its operations. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

Notes to the Financial Statements

The notes to the financial statements provide information that is essential to a full understanding of the data provided in the Government-Wide and Fund Financial Statements. The notes to the financial statements immediately follow the basic financial statements in this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information (RSI) concerning the Schedule of Changes in the city’s Net Pension Liability, the Schedule Employer Contributions, and the funding progress for the Other Post Employments Benefits. Also included as required supplementary information are the Schedules Revenues, Expenditures and Changes in Fund Balances – Budget and Actual the general fund and major special revenue funds.

Combining Statements

The combining statements for other governmental funds, internal service funds and agency-type fiduciary funds are presented immediately following the required supplementary information.

Statistical Section

This section includes unaudited trend information and demographics.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Statement of Net Position

Following is a condensed version of the government-wide statement of net position for 2016 compared to 2015:

Condensed Statement of Net Position (in thousands)						
	GOVERNMENTAL ACTIVITIES		BUSINESS-TYPE ACTIVITIES		TOTAL	
	2016	2015	2016	2015	2016	2015
ASSETS						
Current and other assets	43,737	31,990	34,183	37,732	77,920	69,722
Capital assets (net of accumulated depreciation)	172,633	171,442	160,857	161,346	333,490	332,788
TOTAL ASSETS	\$ 216,370	\$ 203,432	\$ 195,040	\$ 199,077	\$ 411,410	\$ 402,510
Deferred outflows	2,931	1,512	1,233	1,026	4,164	2,539
TOTAL ASSETS AND DEFERRED OUTFLOWS	\$ 219,301	\$ 204,945	\$ 196,273	\$ 200,103	\$ 415,574	\$ 405,048
Current and other liabilities	5,696	6,141	1,095	832	6,791	6,972
Long-term liabilities	42,472	41,781	55,289	59,424	97,761	101,205
TOTAL LIABILITIES	\$ 48,167	\$ 47,922	\$ 56,384	\$ 60,255	\$ 104,552	\$ 108,177
Deferred inflows	295	2,055	95	576	390	2,631
TOTAL LIABILITIES AND DEFERRED INFLOWS	\$ 48,463	\$ 49,977	\$ 56,479	\$ 60,831	\$ 104,942	\$ 110,808
Net Investment in capital assets	144,212	140,810	110,531	106,818	254,744	247,629
Restricted	2,263	3,840	5,548	5,526	7,811	9,366
Unrestricted	24,364	10,319	23,714	26,927	48,079	37,246
TOTAL NET POSITION	\$ 170,839	\$ 154,968	\$ 139,793	\$ 139,272	\$ 310,632	\$ 294,240

Governmental Activities

During the 2016 fiscal year, net position for governmental activities increased \$ 15.9 million or 10.2% from 2015. Key elements of the increase are as follows:

- Cash and investments increased by \$ 2.5 million. The result of expenses in the General Fund coming in under budget due to a push out of projects, and a number of open positions throughout the year.
- Capital assets, net of accumulated depreciation increased by \$1.2 million dollars. There were a number of property purchases during 2016 in preparation of two major street projects that will begin construction in 2018.
- Investment in joint venture increased \$ 10.4 million with the addition of the City's equitable interest in Marysville Fire District which had not previously been included in the statements.
- The increase of \$ 1.4 million in deferred outflows associated with the refunding of the City's 2007A LTGO debt issue, and an increase in the outflow related to pension were offset by a \$ 1.0 million decrease in the net pension asset.
- Current liabilities decreased by \$.4 million due to the normal fluctuations in accounts payable activity and the changes in court and property tax receivables.
- Non-current liabilities increased by \$.7 million due to the accrual of employee wages payable and changes in the net pension liability.
- The \$ 1.8 million decrease in deferred inflows is related to pensions.

Business-Type Activities

Business-type activities of the City's utilities and golf course realized a \$.5 million increase in net position. Key elements of the increase are as follows:

- Total assets and deferred outflows decreased by \$ 3.8 million due to a \$ 3.8 million reduction in cash due to utility construction activities.
- Total liabilities and deferred inflows decreased by \$ 4.3 million due to a reduction in the pension liability and debt service.

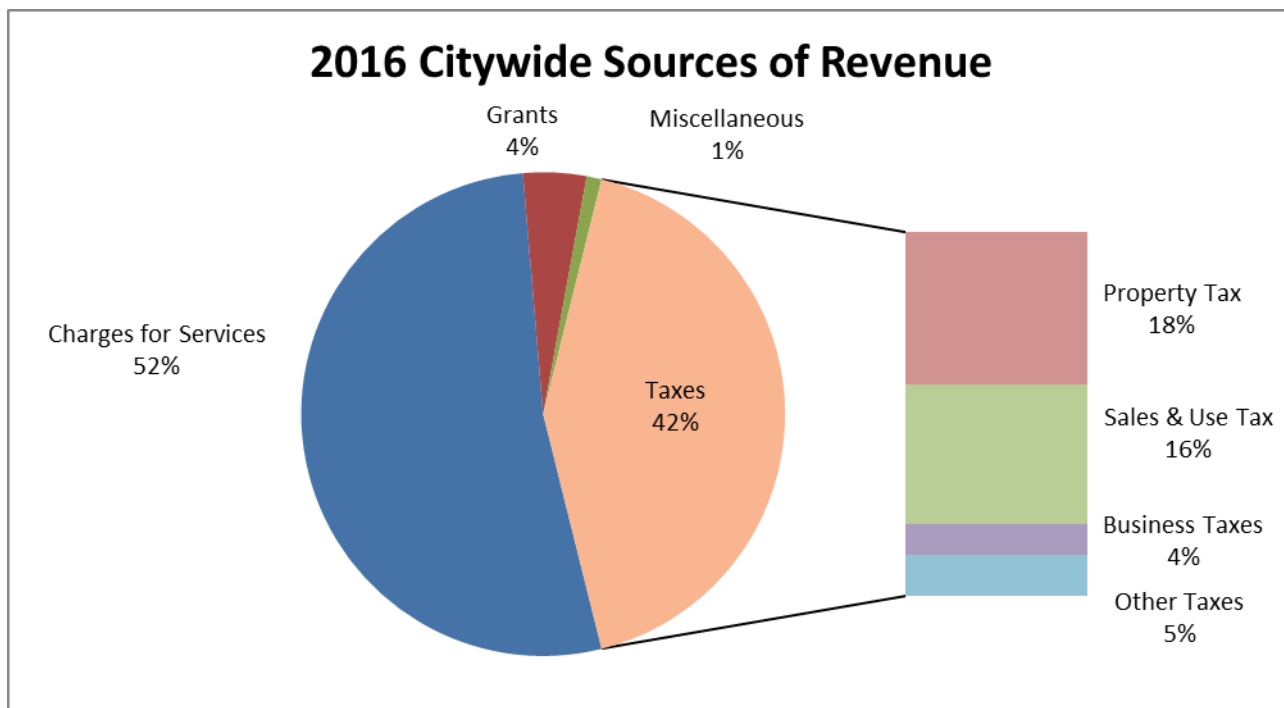
Changes in Net Position

As discussed earlier, the Statement of Net Position provides a measure of the financial health of an entity at a specific date in time. The Statement of Activities provides details on how net position changed from the beginning of the year to the end of the year and whether net position increased or decreased. Therefore the Statement of Activities provides information as to whether the City as a whole is better off financially by yearend as illustrated in the following table.

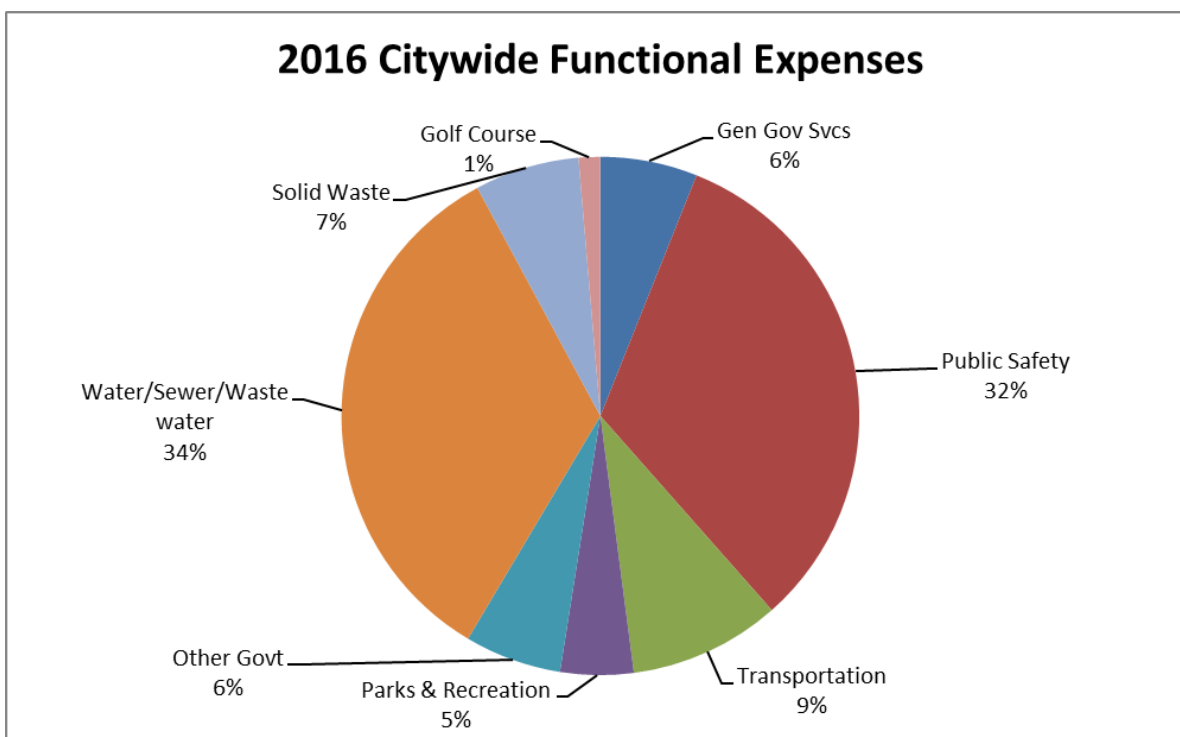
Condensed Statement of Activities
For Year Ended December 31, 2016
(in thousands)

	GOVERNMENTAL ACTIVITIES		BUSINESS-TYPE ACTIVITIES		TOTAL	
	2016	2015	2016	2015	2016	2015
Revenues						
Program Revenue:						
Charges for Services	\$ 8,156	\$ 8,830	\$ 39,029	\$ 38,359	\$ 47,184	\$ 47,189
Operating Grants and Contributions	3,027	5,958	21	70	3,047	6,029
Capital Grants and Contributions	-	273	766	771	766	1,044
General Revenues:						
Property Taxes	15,916	15,728	-	-	15,916	15,728
Sales Taxes	14,521	13,697	-	-	14,521	13,697
Other Taxes	7,488	6,647	-	-	7,488	6,647
Interest and Investment Earnings	287	180	301	108	588	288
Total Revenue	49,394	51,314	40,117	39,309	89,511	90,623
Program Expenses						
Governmental Activities						
Judicial	1,495	1,350	-	-	1,495	1,350
General Government	3,603	5,507	-	-	3,603	5,507
Public Safety	27,246	25,655	-	-	27,246	25,655
Physical Environment	1,223	1,076	-	-	1,223	1,076
Transportation	7,944	8,421	-	-	7,944	8,421
Economic Environment	2,543	2,256	-	-	2,543	2,256
Health	24	41	-	-	24	41
Culture & Recreation	3,841	3,160	-	-	3,841	3,160
Interest on Long-term Debt	1,289	1,224	-	-	1,289	1,224
Business-Type Activities						
Water/Sewer/Surface Water	-	-	28,222	23,038	28,222	23,038
Garbage & Solid Waste	-	-	5,491	5,352	5,491	5,352
Golf Course	-	-	1,135	1,195	1,135	1,195
Total Expenses	49,209	48,690	34,848	29,585	84,058	78,278
Increase in Net Position Before Transfers	184	2,623	5,269	9,724	5,453	12,346
Transfers	4,747	5,103	(4,747)	(5,103)	-	-
Increase in Net Position	4,932	7,727	521	4,621	5,453	12,346
Net Position - Beginning of Year	154,968	154,382	139,272	138,930	294,240	293,313
Changes in Accounting Principles-GASB 68	-	(7,140)	-	(4,279)	-	(11,419)
Prior Period Adjustment	10,939	-	-	-	10,939	-
Net Position - End of Year	\$ 170,839	\$ 154,968	\$ 139,793	\$ 139,272	\$ 310,632	\$ 294,240

As shown in the chart below, charges for services made up 53% of the total revenue received by the city as a whole in 2016. Taxes made up 42% of the revenue sources. Of the 42%, 18% is from property taxes, 16% from sales taxes, and the remaining from business and excise taxes.



The following chart compares the functional expenses of the City. Public Safety and the Water/Sewer Utility Fund make up two-thirds of the total City expenses.



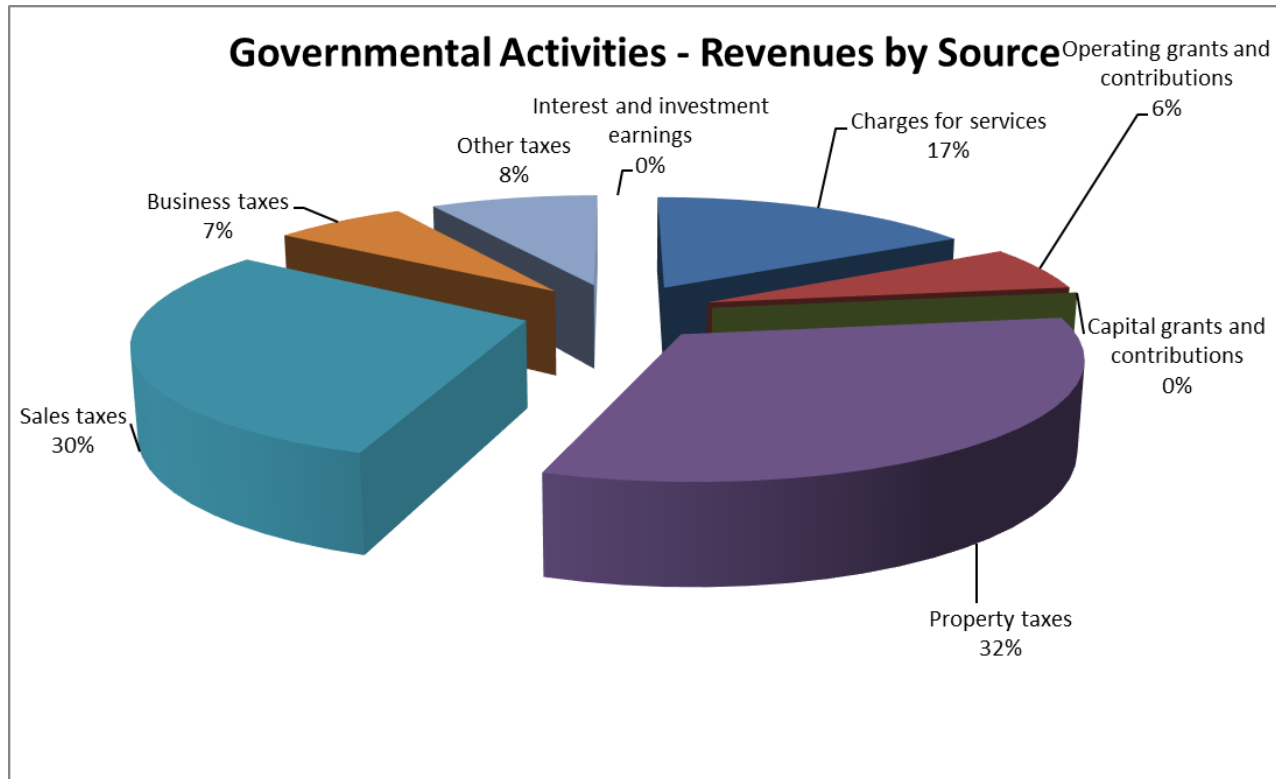
GOVERNMENTAL ACTIVITIES ANALYSIS

As shown in the Statement of Activities, the total cost of all governmental activities in 2016 was \$ 49.4 million. Of this amount \$ 11.2 million was paid 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 \$ 38.0 million was the cost of governmental activity services paid primarily by city taxpayers.

Revenues

Total governmental activity revenue (excluding transfers) decreased by \$ 1.9 million or 3.8%. This was due to the elimination of indirect cost allocations that had not been done in the past. As the chart below depicts, the majority of governmental activity revenue, 76.8%, is from taxes. Combined taxes were up \$ 1.8 million, or 5.1% from 2015.



Sales tax increased by \$.8 million or 6.0% from 2015 which showed a slower growth than in past years, but continues to run above average. Property taxes increased \$.2 or 1.2% a result of increased assessed values, new construction, and state utilities. Other taxes increased \$.8 million or 12.6% from 2015. This category includes utility taxes assessed on utilities, such as telephone, electric and natural gas for services sold within the city limits. The increase in utility tax is the result of rate increases imposed by the utility companies.

Expenses

Total governmental activity expenses increased by \$.5 million or 1.1%, compared to 2015. Highlights of the change in governmental activity expenses are:

- Decrease of \$ 1.9 million in general government associated with the elimination of the indirect cost allocation that had not been done in the past.
- Increase of \$ 1.6 million in Public Safety due to the addition of three police officers and the funding for the vehicles and equipment needed to outfit them. Also an increase in overtime, wage increases, training and the annual fire contribution.
- Increase in Culture & Recreation due to increased activity on park improvement projects. Other increases due to staff and wage increases.

BUSINESS-TYPE ACTIVITIES ANALYSIS

Total expenses of business-type activities in 2016 were \$ 34.8 million. Program revenue covered \$ 39.8 million, with \$ 4.7 million in transfers resulting in a net gain of \$.5 million.

Revenues

Total revenues were up \$.8 million or 2.1% from the prior year. Charges for services increased \$.7 million from 2015, due to a combination of the annual 2.0% rate increase on water/sewer/surface water fees and increased usage or consumption.

Capital grants and contributions consist of infrastructure constructed by the developer and then turned over to the City. Business-type capital contributions saw a slight decrease from 2015.

In 2016, interest earnings on investments increased 178%. The majority of that increase was associated with a correction that was made in the monthly interest accrual. Even though interest rates remained low, the City had more cash to invest.

Expenses

Total business-type expenses were up \$ 5.3 million or 17.7% from 2015. Key elements of this increase are:

- Maintenance work performed on the Wastewater Treatment Plant, \$ 4.2 million.
- Increase in Solid Waste due to increases in wages and tipping fees paid to the county for offloading the sanitation trucks at the landfill.

FUND-LEVEL FINANCIAL ANALYSIS

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

Governmental Fund

The focus of the City's governmental funds is to provide information on near-term revenues/financial resources and expenditures. This information helps determine the City's financing requirements in the near future. In particular, unassigned fund balance measures the City's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year the City's governmental funds reported a combined ending fund balance of \$ 22.4 million an increase of \$ 2.9 million from 2015. This increase was primarily in the general fund where revenues exceeded expenditures.

Revenues for the governmental funds in 2016 were \$ 52.3 million down \$3.8 million or 6.8% from 2015 and expenditures were \$ 50.5 million up \$ 4.4 million or 8.0%.

General Fund - The general fund is the main operating fund of the City through which all receipts and payments of ordinary City operations are processed, unless legally required to be accounted for in another fund. Taxes are the major revenue source. At the end of 2016, the fund balance of the General Fund was \$ 17.4 million up \$ 2.6 million from 2015. As a measure of fund's liquidity, the ending fund balance is 45.5% of the fund's 2016 expenditures. As of December 31, 2016, total revenue was \$ 43.3 million an increase of \$.3 million or .7% and total expenditures were \$ 38.1 million. Of the \$ 17.4 million fund balance, the entire amount is unassigned and is available for discretionary spending. Even though the economy is starting to show signs of recovery, and the City is starting to stabilize, the City remains committed to managing costs and balancing current year revenue and expenses to ensure the financial security of the City.

Streets Capital Improvement Fund – The Street Capital Improvement Fund accounts for the construction of transportation within the city, such as roads, streets, park and rides, and bridges. The fund reported a 42.2% decrease in fund balance due to the reduced level of grant funding for the street projects. With less grant revenue, fund reserves were used for current year activity.

Street Maintenance Fund – The Street Maintenance fund accounts for the maintenance of streets, sidewalks and right-of-ways located within the city. The fund reported a 56.9% decrease in fund balance due increased street improvement projects and other activities in support of the beautification of the downtown corridor. The fund balance was used for current year activity.

Local Improvement District 71 Fund (LID71) – The LID 71 Fund accounts for assessments related to the LID and provides payment to the Fiscal Agent for principal and interest on bonds issued in September 2014. The fund fluctuates passed off the assessments collected and the bonds called during the current year.

Other Governmental Funds – The City has nine other special revenue funds, two other debt service funds and one non-major construction fund.

Combined, the Other Governmental Funds reported total assets of \$ 3.8 million with a combined fund balance of \$ 3.8 million. This is an increase of \$ 1.4 million from 2015. Liabilities and deferred inflows decreased by \$.4 million due to the interfund loan being paid off and the normal fluctuations of accounts payable. The cash and investments increased by \$ 1.4 million. The increase was due to the push out of some of the transportation benefit districts (TBD) projects due to weather, increased REET due to an active housing market and delayed technology updates.

Revenue for the Other Government Funds in 2016 was \$ 5.6 million up \$.5 million from 2015. Increase associated with real estate excise tax and an increase in the TBD sales tax receipts.

Expenditures for the Other Government Funds in 2016 were \$ 3.4 million an increase of \$.2 million. The increase in was in the Parks Construction fund in support of a number of park improvement projects.

Proprietary Funds

The City's proprietary fund statements are similar regarding the information found in the government-wide financial statements, but more detail is provided due to the assortment of activities. These funds include the Waterworks Utility and Solid Waste as the major funds for the purpose of this report. As a result, all statements related to the enterprise funds are presented at the entity-wide level. The Cedarcrest Golf Course is the only enterprise fund that is not considered a major fund. The City does have Internal Service funds which are reported in the fund statements.

Waterworks Utility Fund – The Waterworks Utility Fund accounts for the operations, maintenance, and construction of activities related to the supplying of water, sewer, and storm drainage/surface water services to the community. The fund reported total assets and deferred outflow of \$ 188.6 million, total liabilities and deferred inflows of \$54.9 million, and net position of \$ 133.7 million, a decrease of \$.4 million or .3% increase from the prior year. Key elements for the change include:

- Cash and investments decreased \$ 4.2 million. This is associated with the \$4.2 million biosolid removal project at the Wastewater Treatment Plant.
- Capital Assets decreased by \$.4 million with depreciation offsetting the current year additions.
- Deferred outflows related to pension increased by \$.2 million in 2016.
- Liabilities and deferred inflows decreased by \$ 3.9 million due to the annual debt service payments.

Solid Waste Fund – The Solid Waste Fund accounts for the operations and maintenance of providing solid waste services to citizens within the city limits. The fund reported total assets and deferred outflows of \$ 6.2 million, total liabilities and deferred inflows of \$.4 million and net position of \$ 5.9 million, an increase of \$.4 million or 7.4% from the prior year.

Other Enterprise Funds – The City's other enterprise fund includes only one activity and that is the Cedarcrest Golf Course. The fund reported total assets and deferred outflows of \$ 1.9 million, total liabilities and deferred inflows of \$ 1.2 million, and net position of a \$.6 million an increase of \$.2 million. The increase is due to the annual debt service, and an adjustment to the pension liability removing it from the fund since there are no longer any City employees assigned to the Golf Course.

General Fund Budgetary Highlights

The City transitioned to a biennial budget during the 2015/2016 budget cycle. For the first cycle the City adopted two one-year budgets. For the next biennium the City will adopt a two year budget.

The 2015/2016 budget was adopted in November 2014 by the City Council. The operating and capital budgets retain current service levels of operations, maintaining the City's infrastructure and addresses community priorities.

Appropriation of operating funds are reviewed and amended as needed by the City Council. During 2016 the budget was amended two times. The final General Fund expenditure budget was \$ 1.2 million higher from the original budget. The amendment was to account for the addition of three new police officers and the funding required for all of the equipment and uniforms to outfit the new hires, increase in the fire contract, and increased activity associated with the revitalization of the downtown corridor.

Actual results compared to final budget

General Fund revenues exceeded the amended budget by \$.3 million or .6%. The increase due to permitting for new construction.

General Fund expenditures were under the final amended budget by \$ 1.8 million or 4.5%. The most significant under runs were \$.9 in General Government and \$.7 million in Public Safety. There were several projects that were pushed out to 2017 in the general government area, and the underrun in Public Safety was due to delays in filling the new positions and back filing other vacant positions.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The City's investment in capital assets, including construction in progress, for its governmental and business-type activities as of December 31, 2016 amounts to \$ 333.5 million (net of accumulated depreciation) a decrease of \$.7 million from 2015.

Capital Assets at Year End, Net of Depreciation
(in thousands)

	GOVERNMENTAL ACTIVITIES		BUSINESS-TYPE ACTIVITIES		TOTAL	
	2016	2015	2016	2015	2016	2015
Land	\$ 28,140	\$ 27,218	\$ 13,002	\$ 12,405	\$ 41,142	\$ 39,624
Buildings	7,054	6,974	5,883	5,773	12,937	12,747
Infrastructure	123,828	121,851	-	-	123,828	121,851
Improvements other than buildings	4,879	5,180	132,444	137,686	137,322	142,866
Machinery and Equipment	7,775	5,973	1,836	1,780	9,611	7,753
Construction in Progress	958	4,245	7,692	3,702	8,650	7,947
	\$ 172,633	\$ 171,442	\$ 160,857	\$ 161,346	\$ 333,490	\$ 332,788

Key changes to major capital assets during 2016 included the following:

- Addition to CWIP - \$.7M
- ROW and land purchases for various street projects - \$ 1.0M
- Annual contribution to the City's water/sewer infrastructure from developers - \$.8M
- Fleet vehicle replacements and new vehicles - \$ 2.6M
- Retired Fleet vehicles – (\$.9M)

Additional information on the City's capital assets can be found in Note 5 to the financial statements.

Long Term Debt

At the end of the fiscal year, the City had total bonded debt outstanding of \$65.7 million a decrease of \$ 4.4 million. Of this amount, \$ 23.1 million is general obligation debt, \$1.1 million business-type activities, \$ 37.2 million is revenue bonded debt and \$ 4.3 million is special assessment debt.

Long-Term Debt
(in thousands)

	GOVERNMENTAL ACTIVITIES		BUSINESS-TYPE ACTIVITIES		TOTAL	
	2016	2015	2016	2015	2016	2015
General Obligation Debt	\$ 23,110	\$ 24,290	\$ 1,148	\$ 1,448	\$ 24,258	\$ 25,738
GO Bond premiums	1,047	923	-	-	1,047	923
Revenue Bonds	-	-	37,150	39,475	37,150	39,475
Revenue Bonds Issuance Premiums	-	-	3,336	3,639	3,336	3,639
Revenue Bonds Issuance Discount	-	-	(1)	(2)	(1)	(2)
800 Mhz Project	239	312	-	-	239	312
Public Work Trust Fund Loans	-	-	9,207	10,538	9,207	10,538
Special Assessment (w/government commitment)	4,250	5,108	-	-	4,250	5,108
Total Long-Term Debt	\$ 28,646	\$ 30,632	\$ 50,840	\$ 55,098	\$ 79,486	\$ 85,730

On September 19, 2013, Moody's Investor Service assigned a rating of A1 to the City's limited tax general obligation and refunding bonds, 2013.

On July 28, 2016, Moody's Investors Service assigned a rating of Aa3 to the City's limited tax general obligation bonds and Local Improvement District (LID) bonds.

On February 15, 2017, Moody's Investors Service changed the City's limited tax general obligation bond rating from Aa3 to Aa2. Moody's rating for the City of Marysville are now as follow:

Limited Tax GO Bonds	Aa2 (previously Aa3)
Water/Sewer Revenue Bonds	A1 (previously A3)

S&P published an underlying rating of A+ for the 2005 Revenue Bonds at the time of issuance.

Washington State statutes limit the amount of debt a governmental entity may issue to 7.5% of its total assessed valuation, subject to 60% majority vote of qualified electors. Of the 7.5% limit, 2.5% is for general purposes, 2.5% for open space/park

facilities, and 2.5% for utilities. Non-voted general purpose indebtedness is limited to 1.5% of assessed valuation and the combination of voted and non-voted general purpose indebtedness cannot exceed 2.5% of assessed valuation.

The City's assessed valuation for 2016 was \$ 5.9 billion and the total amount of additional debt that the city may issue is \$ 423 million. Remaining debt capacity is categorized as follows (in thousands):

Debt Capacity Available	
Item	Capacity
General	\$ 124,965
Open Space/Park Facilities	149,420
Utilities	149,420
Total	<u>\$ 423,805</u>

Additional information on the City's long-term debt can be found in Note 8 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City of Marysville Council voted not to increase the regular property tax levy rate by 1% allowed under initiative 747 in 2017. Assessed values (AV) for 2017 are estimated to increase which is the fourth year in a row since 2010, prior to this AV was falling at an average rate of 9% per year. The levy rate for 2017 is \$2.161 per \$1,000 of assessed valuation, an decrease of 5% from the prior year of \$2.278. The 2017 EMS levy rate decreased from \$.404 per \$1,000 of AV to \$.387. The council did exercise the additional 1% for the EMS levy for 2017.

Total General Fund revenues for 2017 are estimated to increase by \$ 2.2 million or 4.7% from the revised 2016 budget before transfers and the total General Fund expenditures are estimated to increase by \$ 1.9 million from the revised 2016 budget before transfers. For 2017, the City continues to recover from the financial challenges in recent years, and has started to reinvest in the community. The City has also started to add staff back into areas where reductions occurred during the recession. The City is moving forward with strategic investments necessary to lay the groundwork for a prosperous future. In 2015, the City transitioned from an annual budget, to a biennial budget. By transitioning to a biennial budget it will encourage long term planning that will further enhance the financial stability of the City and allow us to better serve our community.

Requests for Information

The City's financial statements are designed to provide users with a general overview of the City's finances as well as to demonstrate the City's accountability to its citizens, investors, creditors, and other customers. If you have a question about the report, please contact the City of Marysville Finance Director, 1049 State Avenue, Marysville, Washington, 98270, (360) 363-8000.

STATEMENT OF NET POSITION
DECEMBER 31, 2016

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
ASSETS			
Cash & cash equivalents	8,320,323	8,424,809	16,745,132
Investments	14,820,190	15,109,367	29,929,557
Receivables (net)	7,251,627	5,379,529	12,631,156
Internal Balances	413,439	(413,439)	-
Inventories	174,643	134,879	309,522
Restricted Cash & Investments:			
Investment	-	5,547,716	5,547,716
Investment in joint venture	11,270,329	-	11,270,329
Capital Assets			
Land	28,140,293	13,001,519	41,141,812
Depreciable assets (net)	143,534,944	140,163,228	283,698,172
Construction in progress	957,807	7,692,095	8,649,902
Net Pension Asset	1,486,739	-	1,486,739
Total Assets	216,370,334	195,039,703	411,410,037
Deferred Outflows of resources			
Debt refunding	224,961	514,571	739,532
Related to pension	2,706,169	718,310	3,424,479
Total Deferred Outflows	2,931,130	1,232,881	4,164,011
TOTAL ASSETS AND DEFERRED OUTFLOWS	219,301,464	196,272,584	415,574,048
LIABILITIES			
Accounts payable and accrued expenses	137,616	712,958	850,574
Unearned revenue	5,393,260	25,000	5,418,260
Other current liabilities	165,060	357,281	522,341
<i>Non-Current Liabilities (see Note 10)</i>			
Due within one year	2,437,335	4,230,367	6,667,702
Due in more than one year	40,034,224	51,058,810	91,093,034
Total Liabilities	48,167,495	56,384,416	104,551,911
Deferred Inflows of resources			
Related to pension	295,346	94,912	390,258
Total Deferred Inflows	295,346	94,912	390,258
TOTAL LIABILITIES AND DEFERRED INFLOWS	48,462,841	56,479,328	104,942,169
NET POSITION			
Net investments in capital assets	144,212,253	110,531,409	254,743,662
Restricted for:			
Debt service	776,253	5,547,716	6,323,969
Related to Pension	1,486,739	-	1,486,739
Unrestricted	24,363,378	23,714,131	48,077,509
TOTAL NET POSITION	170,838,623	139,793,256	310,631,879

The accompanying notes are an integral part of this statement

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2016

FUNCTIONS/PROGRAMS	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
	Grants & Contributions					
	Expenses	Charges for Services	Operating	Capital	Governmental Activities	Business-type Activities
<i>Governmental Activities:</i>						
Judicial	1,494,861	631,591	47,139	-	(816,131)	-
General Government	3,603,151	3,113,252	153,922	-	(335,977)	-
Public Safety	27,246,035	859,651	490,395	-	(25,895,989)	-
Physical Environment	1,224,366	1,500	-	-	(1,222,866)	-
Transportation	7,944,384	948,281	1,876,398	-	(5,119,705)	-
Economic Environment	2,543,445	2,031,443	185,149	-	(326,853)	-
Health	23,594	-	-	-	(23,594)	-
Culture & Recreation	3,840,971	570,426	273,525	-	(2,997,020)	-
Interest on long-term debt	1,288,998	-	-	-	(1,288,998)	-
Total Governmental	49,209,805	8,156,144	3,026,528	-	(38,027,133)	-
<i>Business-type Activities:</i>						
Water/Sewer/Surface Water	28,221,547	30,665,035	-	766,209	-	3,209,697
Solid Waste	5,491,363	7,289,832	20,876	-	-	1,799,345
Golf Course	1,135,229	1,093,665	-	-	(41,564)	(41,564)
Total Business-Type	34,848,139	39,028,532	20,876	766,209	-	4,967,478
Total Government	84,057,944	47,184,676	3,047,404	766,209	(38,027,133)	(33,059,655)
General Revenues						
Property Taxes					15,915,807	-
Sales Taxes					14,520,863	-
Utility Taxes					3,305,925	-
Excise Taxes					2,917,230	-
Other Taxes					1,264,033	-
Investment Earnings					287,542	301,128
Transfers					4,747,284	(4,747,284)
Total General Revenues & Transfers					42,958,684	(4,446,156)
Change in Net Position					4,931,551	521,322
Net Position - Beginning					154,968,125	139,271,934
Prior Period Adjustment - Joint Venture					10,938,947	-
Net Position - Ending					170,838,623	139,793,256
						310,631,879

The accompanying notes are an integral part of this statement

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2016**

	GENERAL FUND	STREETS CAPITAL IMPROVEMENTS	LOCAL IMPROVEMENT DISTRICT 71	STREET MAINTENANCE	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS						
CURRENT ASSETS						
Cash & cash equivalents	\$ 4,910,515	\$ 349,991	\$ 124,195	\$ 94,554	\$ 2,593,881	\$ 8,073,136
Investments	12,354,070	628,712	-	169,854	1,223,514	14,376,150
Receivables (net)	1,828,920	-	219,626	29,447	-	2,077,993
Special Assessment Receivable	-	-	5,173,634	-	-	5,173,634
Total Current Assets	19,093,505	978,703	5,517,455	293,855	3,817,395	29,700,913
TOTAL ASSETS	\$ 19,093,505	\$ 978,703	\$ 5,517,455	\$ 293,855	\$ 3,817,395	\$ 29,700,913
LIABILITIES AND FUND BALANCES						
Accounts payable and accrued expense	\$ 21,044	\$ 103,029	\$ -	\$ 2,412	\$ -	\$ 126,485
Unearned revenue	392,058	-	219,626	-	-	611,684
Deposits payable	84,069	3,788	-	77,203	-	165,060
Total Current Liabilities	497,171	106,817	219,626	79,615	-	903,229
Total Liabilities	\$ 497,171	\$ 106,817	\$ 219,626	\$ 79,615	\$ -	\$ 903,229
DEFERRED INFLOW						
Property Taxes	\$ 418,986	\$ -	\$ -	\$ -	\$ -	\$ 418,986
Special Assessments	-	-	5,173,634	-	-	5,173,634
Court Receivables	817,108	-	-	-	-	817,108
Total Deferred Inflow	\$ 1,236,094	\$ -	\$ 5,173,634	\$ -	\$ -	\$ 6,409,728
TOTAL LIABILITIES AND DEFERRED INFLOWS	\$ 1,733,265	\$ 106,817	\$ 5,393,260	\$ 79,615	\$ -	\$ 7,312,957
FUND BALANCE						
<i>Restricted For:</i>						
Law Enforcement	-	-	-	-	282,976	282,976
Tourism	-	-	-	-	76,982	76,982
Technology Infrastructure	-	-	-	-	312,121	312,121
REET	-	-	-	-	1,237,167	1,237,167
<i>Committed to:</i>						
Law Enforcement	-	-	-	-	38,319	38,319
Community Center	-	-	-	-	6,436	6,436
<i>Assigned to:</i>						
Street Construction & Maintenance	-	871,886	-	214,240	1,177,303	2,263,429
Parks Construction Projects	-	-	-	-	34,033	34,033
Debt Service	-	-	124,195	-	652,058	776,253
<i>Unassigned</i>	17,360,240	-	-	-	-	17,360,240
TOTAL FUND BALANCES	17,360,240	871,886	124,195	214,240	3,817,395	22,387,956
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	\$ 19,093,505	\$ 978,703	\$ 5,517,455	\$ 293,855	\$ 3,817,395	\$ 29,700,913

The accompanying notes are an integral part of this statement

**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
DECEMBER 31, 2016**

Total governmental fund balance		\$ 22,387,956
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not current period financial resources and therefore are not reported in the funds.		165,079,987
These assets consist of:		
Land	\$ 28,140,293	
Depreciable Assets (including Infrastructure)	168,434,603	
Construction in Progress	957,807	
Less: Accumulated Depreciation	(32,452,716)	
The investment in joint ventures is not reported at the fund financial reporting level but is reported on the statement of net position.	SERS Marysville Fire District	331,382 10,938,947
Other long term assets used in governmental activities are not current period financial resources and therefore are not reported in the funds		1,878,797
Net Pension Asset	1,486,739	
Current Property Taxes	236,349	
Court Receivable	155,709	
Deferred Inflow - Court Receivables		817,108
Deferred Inflow - Prior Years Property Taxes		418,986
Deferred Outflow - Related to Pension		2,556,436
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds		(41,785,103)
Compensated Absences	(1,963,177)	
General Obligation/Special Assessment Bonds	(28,645,752)	
Net Pension Obligation - (OPEB)	(1,247,763)	
Net Pension Liability	(9,928,411)	
Deferred Outflow- Related to Refunding		224,962
Deferred Inflow - Related to Pension		(270,486)
Internal service funds are used by management to charge the costs of certain activities to individual funds. These assets and liabilities are included in governmental activities in the statement of net position.		8,259,651
Internal service funds-total fund position	\$ 7,846,212	
Add back: amount allocated to internal balances - business-type activities	413,439	
Net position of governmental activities		<u>\$ 170,838,623</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, 2016

	GENERAL FUND	STREETS CAPITAL IMPROVEMENTS	LOCAL IMPROVEMENT DISTRICT 71	STREET MAINTENANCE	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES						
Taxes	\$ 34,824,899	\$ -	\$ -	\$ -	\$ 4,859,574	\$ 39,684,473
Licenses & Permits	2,197,180	-	-	48,278	-	2,245,458
Intergovernmental	1,868,354	392,271	-	1,484,127	423,923	4,168,675
Charges for Services	3,129,950	900,003	-	84,196	166,753	4,280,902
Fines & Forfeitures	435,560	-	-	-	81,444	517,004
Investment Earnings	224,348	15,685	2,478	829	37,963	281,303
Rents & Leases	557,530	4,590	-	-	29,382	591,502
Special Assessments	-	-	451,718	-	-	451,718
Miscellaneous Revenues	43,342	-	-	56,147	2,000	101,489
Total Revenues	43,281,163	1,312,549	454,196	1,673,577	5,601,039	52,322,524
EXPENDITURES						
Current:						
Judicial	1,439,991	-	-	-	-	1,439,991
General Government	3,340,531	-	-	14,199	45,874	3,400,604
Public Safety	26,889,658	-	-	-	18,393	26,908,051
Physical Environment	1,187,622	-	-	-	-	1,187,622
Transportation	-	740,299	-	5,189,720	3,797	5,933,816
Health & Human Services	23,594	-	-	-	-	23,594
Economic Environment	2,367,751	-	-	-	167,993	2,535,744
Culture & Recreation	2,837,576	-	-	-	762,166	3,599,742
Capital Outlay						
Public safety	9,884	-	-	-	-	9,884
Transportation	-	1,938,135	-	-	-	1,938,135
Culture & Recreation	30,391	-	-	-	-	30,391
Debt Service						
Principal	-	-	857,846	-	1,357,662	2,215,508
Interest & fiscal charges	-	-	199,558	-	1,089,440	1,288,998
Total Expenditures	38,126,998	2,678,434	1,057,404	5,203,919	3,445,325	50,512,080
EXCESS (DEFICIENCY) OF REVENUE OVER (UNDER) EXPENDITURES	5,154,165	(1,365,885)	(603,208)	(3,530,342)	2,155,714	1,810,444
OTHER FINANCING SOURCES (USES)						
Transfers in	849,730	1,608,590	-	3,247,581	2,482,384	8,188,285
Transfers out	(3,400,326)	(880,475)	-	-	(2,886,769)	(7,167,570)
Refunding bonds issued	-	-	-	-	5,207,805	5,207,805
Payment to refunding bond escrow agent	-	-	-	-	(5,109,961)	(5,109,961)
Total other financing sources (uses)	(2,550,596)	728,115	-	3,247,581	(306,541)	1,118,559
Net change in fund balances	2,603,569	(637,770)	(603,208)	(282,761)	1,849,173	2,929,003
Fund balances--beginning	14,756,671	1,509,656	727,403	497,001	1,968,222	19,458,953
FUND BALANCES - ENDING	\$ 17,360,240	\$ 871,886	\$ 124,195	\$ 214,240	\$ 3,817,395	\$ 22,387,956

The accompanying notes are an integral part of this statement

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

Net changes in fund balances for governmental funds \$ 2,929,003

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets are allocated over their estimated useful life as depreciation expense. This is the amount by which capital outlays plus adjustments exceeded depreciation in the current period. (604,465)

This is comprised of:

Capital Outlays	\$	1,978,410
Depreciation		(2,582,730)
NBV of retired assets		(145)

Governmental funds do not report the change in the investment in the joint venture the change is reported on the statement of activity (45,278)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

This is comprised of:

Current Property Taxes		7,523
Court Receivables		(20,936)
Special Funding - LEOFF 2		227,337

Deferred Outflows - Prior Years Property Taxes		(41,799)
Deferred Outflows - Prior Years Court Receivables		(154,134)

Repayment of long-term debt is an expenditure in the governmental funds, yet the repayment reduces long-term liabilities in the statement of net position. This is the amount by which repayments exceeded proceeds.

This is comprised of:

Debt of special assessment bonds		(5,207,805)
GO debt retired		2,215,508
Payment to escrow agent		5,109,961
Unamortized premium		93,526

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.

This is comprised of:

Accrued Compensated Absences		(224,246)
Net Pension Obligation - OPEB		(261,465)
Net Pension Expense - GASB 68 Adjustments		(488,412)

Internal service funds are used by management to charge the cost of equipment, maintenance of the facilities and computer costs to individual funds. The net revenue (expense) of this internal service fund is reported with governmental activities

This is comprised of:

Interest revenue allocated from internal service funds	\$	6,239	
to governmental activities			1,397,233
Net expense allocated from internal service funds		532,912	
to governmental activities			
Transfer Out		858,082	

Change in net position of governmental activities	\$	4,931,551
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The accompanying notes are an integral part of this statement

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

	BUSINESS TYPE ACTIVITIES				GOVERNMENTAL ACTIVITIES- INTERNAL SERVICE FUNDS
	WATERWORKS UTILITY	SOLID WASTE	NONMAJOR ENTERPRISE GOLF	TOTAL ENTERPRISE FUNDS	
ASSETS					
CURRENT ASSETS:					
Cash & cash equivalents	\$ 6,681,664	\$ 1,741,545	\$ 1,600	\$ 8,424,809	\$ 247,187
Investments	11,980,908	3,128,459	-	15,109,367	444,040
Receivables (net)	4,117,092	1,262,437	-	5,379,529	-
Inventories	76,311	-	58,568	134,879	174,643
Total Current Assets	22,855,975	6,132,441	60,168	29,048,584	865,870
NONCURRENT ASSETS					
Restricted Cash & Investments:					
Investments	5,547,716	-	-	5,547,716	-
Capital Assets					
Land	12,183,507	-	818,012	13,001,519	-
Depreciable assets (net)	139,188,129	-	975,099	140,163,228	7,553,057
Construction in progress	7,692,095	-	-	7,692,095	-
Total Noncurrent Assets	164,611,447	-	1,793,111	166,404,558	7,553,057
Total Assets	187,467,422	6,132,441	1,853,279	195,453,142	8,418,927
Deferred outflow of resources:					
Debt refunding	504,173	-	10,398	514,571	-
Related to pension	642,047	76,263	-	718,310	149,733
Total Deferred Outflows	1,146,220	76,263	10,398	1,232,881	149,733
TOTAL ASSETS AND DEFERRED OUTFLOWS	\$ 188,613,642	\$ 6,208,704	\$ 1,863,677	\$ 196,686,023	\$ 8,568,660
LIABILITIES					
CURRENT LIABILITIES					
Accounts payable and accrued exp.	\$ 266,574	\$ 158	\$ 3,514	\$ 270,246	\$ 11,131
Accrued interest payable	419,465	-	23,247	442,712	-
Compensated absences	143,107	18,288	-	161,395	49,731
Bonds, notes, loans payable	3,750,757	-	318,215	4,068,972	-
Unearned revenue	25,000	-	-	25,000	-
Deposits payable	5,647	-	3,500	9,147	-
Other current liabilities	290,900	-	57,234	348,134	-
Total Current Liabilities	4,901,450	18,446	405,710	5,325,606	60,862
NONCURRENT LIABILITIES:					
Bonds, notes, loans payable (net)	45,941,753	-	829,279	46,771,032	-
Net Pension Liability	3,825,177	301,206	-	4,126,383	586,996
Compensated absences	143,107	18,288	-	161,395	49,730
Total Noncurrent Liabilities	49,910,037	319,494	829,279	51,058,810	636,726
Total Liabilities	54,811,487	337,940	1,234,989	56,384,416	697,588
Deferred Inflows of resources					
Related to pension	82,155	12,757	-	94,912	24,860
Total Deferred Inflows	82,155	12,757	-	94,912	24,860
TOTAL LIABILITIES AND DEFERRED INFLOWS	\$ 54,893,642	\$ 350,697	\$ 1,234,989	\$ 56,479,328	\$ 722,448
NET POSITION					
Net investment in capital assets	109,875,394	-	656,015	110,531,409	7,553,057
Restricted for debt service	5,547,716	-	-	5,547,716	-
Unrestricted	18,296,890	5,858,007	(27,327)	24,127,570	293,155
TOTAL NET POSITION	\$ 133,720,000	\$ 5,858,007	\$ 628,688	\$ 140,206,695	\$ 7,846,212

The net effect of activities allocated from internal service funds is presented as an (413,439)

internal balance on the statement of net position

Net position of business-type activities

\$ 139,793,256

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, 2016

	BUSINESS TYPE ACTIVITIES				GOVERNMENTAL ACTIVITIES- INTERNAL SERVICE FUNDS
	WATERWORKS UTILITY	SOLID WASTE	NONMAJOR ENTERPRISE GOLF	TOTAL ENTERPRISE FUNDS	
OPERATING REVENUES:					
Charges for Services:					
Water/Sewer/Surface Water	\$ 25,976,164	\$ -	\$ -	\$ 25,976,164	\$ -
Golf	-	-	1,033,176	1,033,176	-
Garbage & Solid Waste	-	7,269,832	-	7,269,832	-
Other Services	-	-	-	-	3,792,288
Total Operating Revenues	25,976,164	7,269,832	1,033,176	34,279,172	3,792,288
OPERATING EXPENSES:					
Maintenance & operations	14,768,174	5,277,292	986,338	21,031,804	2,250,840
Taxes	2,914,911	1,251,778	5,137	4,171,826	-
Depreciation	6,193,784	-	65,551	6,259,335	730,124
Total Operating Expenses	23,876,869	6,529,070	1,057,026	31,462,965	2,980,964
Operating income (loss)	2,099,295	740,762	(23,850)	2,816,207	811,324
NONOPERATING REVENUES (EXPENSES)					
Intergovernmental	-	20,876	-	20,876	-
Investment earnings	259,606	41,203	319	301,128	6,239
Miscellaneous nonoperating revenue	4,688,871	-	60,489	4,749,360	(966)
Interest expense	(1,306,772)	-	(80,936)	(1,387,708)	-
Miscellaneous nonoperating expenses	(5,143,398)	-	-	(5,143,398)	-
Total Non-Operating Revenues (Expenses)	(1,501,693)	62,079	(20,128)	(1,459,742)	5,273
Income (Loss) Before Capital Contributions & Transfers	597,602	802,841	(43,978)	1,356,465	816,597
Capital contributions	766,209	-	-	766,209	-
Transfers in	-	-	288,415	288,415	858,082
Transfers (out)	(1,816,014)	(351,198)	-	(2,167,212)	-
	(1,049,805)	(351,198)	288,415	(1,112,588)	858,082
CHANGE IN NET POSITION	(452,203)	451,643	244,437	243,877	1,674,679
NET POSITION-BEGINNING	134,172,203	5,406,364	384,251	139,962,818	6,171,533
NET POSITION-ENDING	\$ 133,720,000	\$ 5,858,007	\$ 628,688	\$ 140,206,695	\$ 7,846,212

Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds: 277,445

Change in net position of business-type activities \$ 521,322

The accompanying notes are an integral part of this statement

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

	BUSINESS-TYPE ACTIVITIES				GOVERNMENTAL ACTIVITIES- INTERNAL SERVICE FUNDS
	WATERWORKS UTILITY	SOLID WASTE	NONMAJOR ENTERPRISE GOLF	TOTAL	
Cash Flows From Operating Activities:					
Cash received from customers	\$ 25,988,556	\$ 7,269,832	\$ 1,040,102	\$ 34,298,490	\$ -
Cash received from interfund charges					3,792,288
Cash received from other sources	98,615	-	59,635	158,250	-
Cash paid to suppliers for goods and services	(9,298,286)	(4,265,117)	(586,495)	(14,149,898)	(824,810)
Cash paid to employees for services	(6,124,179)	(1,100,470)	(424,072)	(7,648,721)	(1,494,690)
Cash paid for taxes	(2,914,911)	(1,251,778)	(5,137)	(4,171,826)	-
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 7,749,795	\$ 652,467	\$ 84,033	\$ 8,486,295	\$ 1,472,788
Cash Flows From Non-Capital Financing Activities:					
Proceeds from federal, state and local grants	283,846	20,876	854	305,576	-
Transfer in from other funds	-	-	288,415	288,415	858,082
Transfer (out) to other funds	(1,816,014)	(351,198)	-	(2,167,212)	-
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	\$ (1,532,168)	\$ (330,322)	\$ 289,269	\$ (1,573,221)	\$ 858,082
Cash Flows From Capital and Related Financing Activities:					
Acquisition/Construction-capital	(10,142,969)	-	-	(10,142,969)	(2,542,301)
Procees from sale of assets and insurance recoveries	25,659	-	-	25,659	16,081
Capital Contribution	4,722,344	-	-	4,722,344	-
Payments on debt principal	(3,655,757)	-	(299,974)	(3,955,731)	-
Payment on debt interest	(1,596,655)	-	(73,647)	(1,670,302)	-
NET CASH PROVIDED BY CAPITAL FINANCING ACTIVITIES	\$ (10,647,378)	\$ -	\$ (373,621)	\$ (11,020,999)	\$ (2,526,220)
Cash Flows From Investing Activities:					
Purchase of Investments	(4,032,304)	(1,135,559)	-	(5,167,863)	(126,576)
Proceeds from Sale of Investments	2,131,197	-	-	2,131,197	71,832
Interest on Investments	259,606	41,203	319	301,128	6,239
NET CASH PROVIDED BY INVESTING ACTIVITIES	\$ (1,641,501)	\$ (1,094,356)	\$ 319	\$ (2,735,538)	\$ (48,505)
Net Increase (Decrease) in Cash & Equivalents	(6,071,252)	(772,211)	-	(6,843,463)	(243,855)
Cash and Equivalents January 1, 2016	12,752,916	2,513,756	1,600	15,268,272	491,042
CASH AND CASH EQUIVALENTS, DECEMBER 31	\$ 6,681,664	\$ 1,741,545	\$ 1,600	\$ 8,424,809	\$ 247,187
Unrestricted cash and cash equivalents	6,681,664	1,741,545	1,600	8,424,809	247,187
CASH AND CASH EQUIVALENTS, DECEMBER 31	\$ 6,681,664	\$ 1,741,545	\$ 1,600	\$ 8,424,809	\$ 247,187

The accompanying notes are an integral part of this statement

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

	BUSINESS-TYPE ACTIVITIES				GOVERNMENTAL ACTIVITIES- INTERNAL SERVICE FUNDS
	WATERWORKS UTILITY	SOLID WASTE	NONMAJOR ENTERPRISE GOLF	TOTAL	
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:					
Operating Income (Loss)	\$ 2,099,295	\$ 740,762	\$ (23,850)	\$ 2,816,207	\$ 811,324
Adjustments to Reconcile Operating Income to Net					
Cash Provided by (Used in) Operating Activities					
Depreciation and Amortization	6,193,784	-	65,551	6,259,335	730,124
Other Non-Operating Receipts	98,615	-	59,635	158,250	-
Changes in Assets and Liabilities:					
(Increase)/Decrease in Inventories	-	-	(3,585)	(3,585)	(13,457)
(Increase)/Decrease in Receivables	43,200	22,256	-	65,456	-
Increase (Decrease) in Net Pension - Contra	(626,058)	22,562	(19,067)	(622,563)	(29,029)
Increase (Decrease) in Accounts Payable	(5,159)	(133,113)	(2,367)	(140,639)	(26,174)
Increase (Decrease) in Other Current Liabilities	(53,882)	-	7,716	(46,166)	-
TOTAL ADJUSTMENTS	5,650,500	(88,295)	107,883	5,670,088	661,464
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 7,749,795	\$ 652,467	\$ 84,033	\$ 8,486,295	\$ 1,472,788
SCHEDULE OF NON-CASH CAPITAL AND RELATED FINANCING ACTIVITIES:					
Capital assets contributed by private developers	766,209	-	-	766,209	-
Gain (losses) on sale of capital asset (NBV)	-	-	-	-	(52,383)
Increase (decrease) in fair value of investments	(27,283)	-	-	(27,283)	-
TOTAL NON-CASH ACTIVITIES	\$ 738,926	\$ -	\$ -	\$ 738,926	\$ (52,383)

The accompanying notes are an integral part of this statement

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**STATEMENT OF NET POSITION
FIDUCIARY FUNDS
DECEMBER 31, 2016**

	AGENCY FUNDS
ASSETS	
Cash & cash equivalents	\$ 47,199
Total Assets	\$ 47,199
LIABILITIES	
Accounts payable and accrued expenses	\$ 28,860
Other liabilities	\$ 18,339
Total Liabilities	\$ 47,199

The accompanying notes are an integral part of this statement

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

A. Reporting Entity

The City of Marysville was incorporated on March 20, 1891 and operates under the laws of the State of Washington applicable to a non-charter code city with a mayor-council form of government. The accounting and reporting policies of the city conform to generally accepted accounting principles (GAAP) of local governments.

The city is a general-purpose government and provides public safety, road improvement, parks and recreation, judicial administration and general governmental services. In addition, the city owns and operates a water/sewer/surface water utility, a golf course and provides garbage collection and recycling services. The accompanying statements include all funds, agencies and boards controlled by or dependent on the city. The financial statements include as well the assets and liabilities of all funds for which the city has a custodial or trust responsibility. The financial statements do not include the financial position or results of operations of the Marysville School District, which is a separate municipal corporation.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been eliminated from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

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

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

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary funds. The fiduciary funds presented are agency funds. These funds use the accrual basis of accounting; however, because they only report assets and liabilities they do not have a measurement focus. 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.

Property taxes, licenses, and interest associated within the current period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. 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 government 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 general fund includes police, parks, culture and recreation, community development, courts, executive, finance, human resources, legal and fire services.
- The Street Capital Improvement fund accounts for the design and construction of the city's infrastructure. Revenues come from traffic mitigation fees, real estate excise taxes and state and federal grants.
- The Street Maintenance fund accounts for the operation and maintenance of the city streets, right-of-ways, and sidewalks. Revenues come from state shared fuel taxes, permitting fees, and a portion of the sales tax revenue that is receipted into the General Fund and is then transferred to the Street Maintenance fund.
- The Local Improvement District (LID) #71 accounts for assessments related to the LID and provides payment to the fiscal agent for principal and interest on bonds issued in September 2014.

The city reports the following major proprietary funds:

- The Waterworks Utility operating fund accounts for the distribution and filtration of water, the collection and treatment of wastewater, as well as the collection and treatment of sewage, and the design and construction of all water/sewer/surface water capital projects. Also included in the waterworks utility fund are all debt service payments.
- The Solid Waste fund accounts for the collection of commercial and residential solid waste as well as curb side recycling program.

Additionally, the government reports the following fund types:

- Special revenue funds account for the proceeds of specific revenue sources to finance specific activities as required by law or administrative regulations.
- Debt service funds account for the accumulation of resources and the payment of general long-term debt principal and interest from governmental resources and special assessment bond principal and interest from special assessment levies when the government is obligated in some manner for the payment.
- Capital project funds account for the design and construction of city parks and recreational facilities.
- Internal service funds account for the city's fleet management, facility services and information services provided to other departments on a cost reimbursement basis.
- Agency funds are custodial in nature (assets equal liabilities) and do not measure the results of operation.

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. General revenues include all taxes.

The proprietary statements are reported using the economic resources measurement focus and full-accrual basis of account. Revenues are recorded when liability is incurred regardless of the timing of cash flows. 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 Waterworks Utility Fund, Solid Waste Fund, Golf Fund, and the internal service funds are charges to customers for sales and services. Operating expenses for the 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. When both restricted and unrestricted resources are available to use, it is the City of Marysville's policy to use restricted resources first, and then unrestricted resources as needed.

D. Budgetary Information

Scope of Budget

In accordance with the Revised Code of Washington (RCW) 35A.34, the City budgets for all operating funds. These budgets are prepared in accordance with generally accepted accounting principles. Budgetary accounts are integrated in fund ledgers for all budgeted funds, but the financial statements include budgetary comparisons for annually budgeted governmental funds only.

The City transitioned to a biennial budget for the 2015/2016 budget cycle. For the first year, the City adopted two one year budgets. The appropriated budgets are adopted at the fund level where expenditures may not exceed appropriations. 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 monitor expenditures for individual functions and activities by object class.

Appropriations for all funds lapse at year-end.

Amending the Budget

The City Administrative Officer 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 a simple majority. The budget was amended by ordinance two (2) times during 2016.

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 applicable for the fiscal year.

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

E. Assets, Liabilities, Fund Balances and Net Position

Cash and Cash Equivalents

The City of Marysville invests all short-term cash surpluses. Monies from all City funds are internally pooled for investment purposes. The interest earned from the pooled investments is prorated to individual funds at the end of each month based on the cash balance in each fund at the end of the month. The City considers all highly-liquid assets, including investment in the Washington State's Local Government Investment Pool, and short-term investments with a maturity of three months or less when purchased to be cash equivalents.

For purposes of the Statement of Cash Flows, the city considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

Investments (see note 3 – Deposits and Investments)

Investments are recorded at fair value in accordance with GASB Statement No. 72, Fair Value Measurement and Application. Accordingly, the change in fair value of investments is recognized as an increase or decrease to investment assets and investment income.

Receivables

Taxes receivable consists of property taxes, related interest and penalties (see note 4-Property Taxes). Accrued interest receivable consists of amounts earned on investments, notes, and contracts at the end of the year.

Special assessments are recoded when levied. Special assessments receivable consist of current and delinquent assessments and related interest and penalties. As of December 31, 2016, \$6,130 of special assessments receivable were delinquent.

Customer accounts receivable consist of amounts owed from private individuals or organizations for goods and services including amounts owed for which billings have not been prepared. Notes and contracts receivable consists of amounts owed on open accounts from private individuals or organizations for goods and services rendered.

Amounts Due to and from Other Funds; Interfund Loans and Advances Receivable

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, amounts due to and from other funds and advances are furnished in Note 12 – Interfund Transactions and Balances.

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.

Special Assessments

Special assessments are amounts levied against benefited properties to recover costs associated with the construction of local improvement district (LID) projects. A lien is recorded against benefited properties until the assessment has been paid. Special assessments receivable represent all outstanding assessment amounts including current assessments billed but not collected, unpaid delinquent assessments, and special assessment amounts due in future years, which are recorded in a deferred inflow of resources account. Since special assessments are secured by liens against related properties, no allowance for uncollectible amounts is made.

Inventories

Inventories in proprietary funds are valued by the FIFO method, which approximates the market value.

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 to ensure compliance with the revenue debt bond covenants. Specific debt service reserve requirements are described in note 8 – Long-Term Debt.

Capital Assets (see note 5 – Capital Assets and Depreciation)

The City began prospective reporting of general infrastructure assets in January 1, 2005 and incorporated the retrospective values in 2007.

Capital assets, which include property, plant, and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and estimated useful life in excess of one year. Infrastructure assets are capitalized when cost equals or exceeds \$300,000. Donated capital assets are recorded at acquisition value at the date of donation.

Capital assets purchased, constructed, or leased by a governmental fund type are recorded as expenditures in that fund at the time the related expenditures are incurred. The associated capital assets are capitalized in the Governmental Activities column on the Government Wide Statement of Net Position. Capital assets of internal service funds are reported with governmental assets.

Costs of normal maintenance and repair for general capital assets are not capitalized. However, any improvement that increases an asset's value, capacity or materially extends its life is added to that asset's capitalized costs.

All project costs are included in construction in progress in the government-wide statement of net position. At completion, capital costs are reclassified to the appropriate capital asset account. In the governmental fund financial statements, lease and contract payments are reported as expenditures.

Property, plant and equipment of the primary government, are depreciated using the straight line method over the following estimated useful lives:

ESTIMATED SERVICE LIFE	
Buildings & Structures	25-50 Years
Infrastructure	13-100 Years
Improvement Other Than Buildings	5-50 Years
Machinery & Equipment	2-20 Years

Other Post-Employment Benefits (see note 6 – Pension Plans)

Lifetime full medical coverage is provided to uniformed Police and Fire personnel who became members of the Law Enforcement Officers and Fire Fighters (LEOFF) retirement system prior to October 1, 1977. A liability for the accumulated unfunded actuarially required contributions is reported in the Statement of Net Position. Actual medical costs are reported as expenditures in the general fund in the year they are incurred.

Compensated Absences

Employees may accumulate up to 180 days of sick leave. However, since the city does not have a policy to pay any amounts when employees separate from service with the government, there is no liability recorded for unpaid accumulated sick leave. Sick leave pay is recorded as an expense/expenditure upon usage. Eligible employees accumulate 10 to 25 days of vacation annually depending upon the employee's length of service, but may not accumulate more than two full years of earned accrual. At the time of retirement or separation from the City, employees will be compensated for any unpaid accumulated vacation leave up to 240 hours.

Other Accrued Liabilities

These accounts consist of accrued wages and accrued employee benefits.

Unearned Revenues

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

Deferred Outflow of Resources

Deferred outflow of resources is the consumption of net position that is applicable to a future reporting period. A deferred outflow of resources involved no consumption of resources that results in either a net decrease in assets or a net increase in liabilities. It also represents access to present service capability that is under the government's controls. Deferred outflows of resources presented in this manner on the accompanying financial statements are related to outstanding debt, pension, property taxes and court receivables.

Long-term Debt (see note 8-Long-Term Debt)

Liabilities for long-term debt are recorded in the government-wide statement of net position and in the proprietary funds balance sheet. The liabilities include 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.

For governmental funds financial statements, bond issuance costs are expended at the time of issuance. Bond premiums and discounts are deferred and amortized over the life of the bonds. Bond proceeds are reported as other financing source net of

the applicable premium or discount. Issuance costs, even if withheld from the actual net proceeds received, are reported as a debt service expenditure. The nature of debt in the governmental activity is specific to a program and, therefore; debt service costs are not an allocated expenditure.

Deferred Inflow of Resources

Deferred inflow of resources is the acquisition of net position that is applicable to a future reporting period. A deferred inflow of resources involved no acquisition of resources resulting in either a net increase in assets or a new decrease in liabilities. It represents a present obligation to sacrifice resources that the government has little or no discretion to avoid. Deferred inflow of resources presented in this manner on the accompanying financial statements are related to outstanding debt and pension.

Net Position and Fund Balance

Net Position is segregated into three categories on the government-wide statement of net position: 1) net investment in capital assets; 2) restricted; and 3) unrestricted. The flow assumption of the City is to use restricted assets before unrestricted assets. Restricted assets are usually set aside in a separate fund, specifically used for the purpose of debt service or capital.

Fund balances, with the implementation of GASB 54, presented in the governmental fund financial statements represent the difference between assets and liabilities reported within the government fund. Fund balance is classified into the following categories:

Non-spendable – items that cannot be spent due to form; inventories, prepaid amounts, long-term loan receivables, or amounts that must be maintained intact legally.

Spendable - amounts are further segregated into categories based on the degree to which the uses of resources are constrained. When an expenditure is incurred for which restricted and unrestricted amounts are available, the City considers restricted amounts to be used first, followed by committed, then assigned, and lastly, unassigned amounts.

Restricted – amounts constrained for specific purposes imposed by external parties, such as those resulting from federal and state legislation, grant awards, bond covenants, and inter-local service agreements.

Committed – fund balance constrained by ordinance or resolution is adopted by City council and requires the same action to remove the constraint. In Washington State, ordinances and resolutions carry the same force of law.

Assigned – constraints that are neither restricted or committed, are considered assigned. Assignments are adopted by City Council through the budget ordinance. Special revenue funds typically report the majority of assigned fund balance and are created through ordinance by City Council. Fund balance in special revenue funds that are intended to be used for specific purposes, but are neither restricted or committed, include transfers from other funds, investment interest not constrained by contract or covenant, fees for services and rents.

Unassigned – any remaining fund balance in the general fund not classified as non-spendable, restricted, committed or assigned is considered unassigned. Also negative fund balance in any other governmental fund is unassigned. Also, the City's financial policies require a minimum of 10% of General Funds budgeted revenues (less beginning fund balance) be held in reserve. The reserves can be used for anything that council feels is necessary and therefore is reported as unassigned. Any and all expenditures from the reserve require a super majority vote by the entire City Council.

Pensions

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

NOTE 2 – ACCOUNTING AND REPORTING CHANGES

New Accounting Standards

In 2016, the City implemented GASB Statement No. 72, “Fair Value Measurement and Application”. This statement provides guidance for determining a fair value measurement and guidance for applying fair value to certain investments and disclosures.

GASB Statement No. 76, “The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments” was reviewed for impacts on the financial statements.

Also in 2016, the City reviewed GASB Statement No. 77, “Tax Abatement Disclosures”. This statement provides the financial statement users with essential information about the nature and magnitude of the reduction in tax revenues through tax abatement programs. The City currently has three programs that are eligible for tax abatements, but no participants. The City will continue to monitor these programs and disclose as necessary.

Prior Period Adjustment

A prior period adjustment reported on the government-wide statement of activities is associated with the joint venture between the City of Marysville and Snohomish County Fire Protection District 12. This joint venture had not been reported in the past and is now being included in the financials. Additional information regarding this agreement can be found in Note 13-Joint Ventures and Operations.

NOTE 3 - DEPOSITS AND INVESTMENTS

Deposits

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

Investments

As 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, or certificates of deposit with Washington State Banks.

The Washington Local Government Investment Pool (LGIP) is unrated and operates in a manner consistent with the SEC's Rule 2a-7 of the Investment Company Act of 1940. Rule 2a7 allows SEC-registered mutual funds to use amortized cost, which approximates fair value, to report net assets and compute share prices.

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 government agencies all of which hold AAA ratings from Standard & Poor's and Aaa from Moody's Investor Services. The City does not have a specific credit risk policy.

Custodial Credit Risk is the risk that in the event of a bank failure, the City's investments may not be recovered. All City securities are held for safekeeping by US Bank. The City does not have a specific custodial credit risk policy.

Concentration of Credit Risk – Concentration of credit risk is the risk of loss attributed to the magnitude of the City's investment in a single issuer. Safety of the principal is the foremost objective of the investment program. Investments of the City shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The City does not have a specific concentration of risk policy.

Investments that are not measured at fair value

As of December 31, 2016, the City had the following investments at amortized cost reported as cash equivalents:

Investment Type	Maturities	Total
CD – Bank of America	6/30/2017	\$ 11,650
Deposit Account – Opus Bank	-	5,150,277
State Pool	-	8,537,395
Total deposits		\$ 13,699,322

Investments measured at fair value**Investments and maturities**

Investment Type	Fair Value	Less Than 1 Year	1 to 4 Years
Federal Farm Credit Bank	\$ 3,016,963	\$ 999,412	\$ 2,017,551
Federal Home Loan Bank	10,953,235	-	10,953,235
US Treasury Securities	21,507,075	8,996,190	12,510,885
Total Investments	\$ 35,477,273	\$ 9,995,602	\$ 25,481,671

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

Level 1 – Quoted prices in active markets for identical assets or liabilities

Level 2 – These are quoted market prices for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other than quoted prices that are not observable

Level 3 – Unobservable inputs for an asset or liability

Investment Type	Fair Value	Quotes Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)
Federal Agency Securities	\$ 13,970,198	\$ -	\$ 13,970,198
US Treasury Securities	21,507,075	21,507,075	-
Total Investments	\$ 35,477,273	\$ 21,507,075	\$ 13,970,198

NOTE 4 - PROPERTY TAXES:

The county treasurer acts as an agent to collect property taxes levied in the county for all taxing authorities. Collections are distributed at/after the end of each month. Properties listed on the County tax rolls as of May 31 are included in the annual tax levy January 1. New construction through August 31 is included in the annual tax levy the following January 1.

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

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 revenue is made to account for delinquent taxes. No allowance for uncollectible taxes is established because delinquent taxes are considered fully collectible.

The City may levy up to \$3.60 per \$1,000 of assessed valuation for general governmental services, subject to two limitations:

- a. Washington State law in RCW 84.55.010 limits the growth of regular property taxes to 1 percent per year, after adjustments for new construction.
- b. The Washington State Constitution limits the total regular property taxes to 1 percent of all assessed valuation of \$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 1 percent limit.

The City's regular levy for 2016 was \$2.6813 per \$1,000 on an assessed valuation of \$5,976,816,814.

Purpose of Levy	Levy Rate Per \$1,000	Total Levy Amount
General Government	2.2776	\$ 13,612,886
Emergency Medical Service (EMS)	.4037	2,413,028
Total City Levy	2.6813	\$ 16,025,914

NOTE 5 - CAPITAL ASSETS AND DEPRECIATION

A summary of changes in governmental capital assets follows:

GOVERNMENTAL ACTIVITIES	BEGINNING BALANCE 01/01/2016	ADDITIONS	DELETIONS	ENDING BALANCE 12/31/2016
Capital assets, not being depreciated:				
Land	27,218,361	921,932	-	28,140,293
Construction in progress	4,245,247	4,772,092	(8,059,532)	957,807
Total capital assets not being depreciated	31,463,608	5,694,024	(8,059,532)	29,098,100
Capital assets, being depreciated:				
Buildings and Structures	10,223,519	273,877	-	10,497,396
Improvements other than buildings	7,854,999	-	-	7,854,999
Infrastructure	145,399,847	8,059,532	(4,029,766)	149,429,613
Machinery and Equipment	13,576,558	2,617,911	(859,983)	15,334,486
	177,054,923	10,951,320	(4,889,749)	183,116,494
Less accumulated depreciation for:				
Buildings	(3,249,076)	(194,595)	-	(3,443,671)
Improvements other than buildings	(2,675,119)	(301,208)	-	(2,976,327)
Infrastructure	(23,548,616)	(2,053,439)	-	(25,602,055)
Machinery and Equipment	(7,603,339)	(763,612)	807,454	(7,559,497)
Total accumulated depreciation	(37,076,150)	(3,312,854)	807,454	(39,581,550)
Total assets being depreciated, net	139,978,773	7,638,466	(4,082,295)	143,534,944
Governmental activities capital assets, net	171,442,381	13,332,490	(12,141,827)	172,633,044

A summary of changes in business-type capital asset follows:

BUSINESS-TYPE ACTIVITIES	BEGINNING BALANCE 01/01/16	ADDITIONS	DELETIONS	ENDING BALANCE 12/31/16
Capital assets, not being depreciated:				
Land	12,405,376	596,143	-	13,001,519
Construction in progress	3,701,582	3,990,513	-	7,692,095
Total capital assets not being depreciated	16,106,958	4,586,656	-	20,693,614
Capital assets, being depreciated:				
Buildings and Structures	9,144,412	275,934	-	9,420,346
Improvements other than buildings	225,590,307	766,209	-	226,356,516
Machinery and Equipment	4,832,589	141,826	(55,074)	4,919,341
	239,567,308	1,183,969	(55,074)	240,696,203
Less accumulated depreciation for:				
Buildings	(3,371,516)	(165,470)	-	(3,536,986)
Improvements other than buildings	(87,904,156)	(6,008,540)	-	(93,912,696)
Machinery and Equipment	(3,053,042)	(85,325)	55,074	(3,083,293)
Total accumulated depreciation	(94,328,714)	(6,259,335)	55,074	(100,532,975)
Total assets being depreciated, net	145,238,594	(5,075,366)	-	140,163,228
Business-type activities capital assets, net	\$161,345,552	\$ (488,710)	\$ -	\$ 160,856,842

Depreciation

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

<u>Governmental Activities</u>	
General Government Services	\$ 166,936
Protection of Persons & Property	63,045
Transportation	2,169,556
Culture & Recreation	183,193
Internal Service	730,124
Total Depreciation-Governmental Activities	<u>\$ 3,312,854</u>
<u>Business-type Activities</u>	
Waterworks Utility	\$ 6,193,784
Golf	65,551
Total Depreciation-Business-Type Activities	<u>\$ 6,259,335</u>

Construction Commitments

As of December 31, 2016, the City had other outstanding contractual commitments, which include construction and engineering contracts for capital projects currently in progress. The City's outstanding contract obligations are summarized below:

Project	Expended To Date	Remaining Commitment
Parks Construction	\$ 239,541	\$ 28,299
Street Construction	2,571,208	355,586
Utility Construction	3,202,759	6,101,407
Total	\$ 6,013,508	\$ 6,485,292

NOTE 6 - PENSION PLANS

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

Aggregate Pension Amounts – All Plans	
Pension liabilities	(14,641,789)
Pension assets	1,486,739
Deferred outflows of resources	3,424,479
Deferred inflows of resources	(390,258)
Pension expense/expenditures	1,891,921

State Sponsored Pension Plans

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

The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to: Department of Retirement Systems, Communications Unit, P.O. Box 48380, Olympia, WA 98540-8380

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

Public Employees' Retirement System (PERS)

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

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

Contributions

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

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

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

The City's actual contributions to the plan were \$ 26,311 for the year ended December 31, 2016.

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

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

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

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

Contributions

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

PERS Plan 2/3		
Actual Contribution Rates:	Employer 2/3	Employee 2*
PERS Plan 2/3	6.23%	6.12%
PERS Plan 1 UAAL	4.77%	-
Administrative Fee	.18%	-
Employee PERS Plan 3	-	Varies
TOTAL	11.18%	6.12%

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

The City's actual PERS plan contributions were \$ 718,477 to PERS Plan 1 UAAL and \$ 877,314 to PERS Plan 2/3 for the year ended December 31, 2016.

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 2016 were as follows:

PSERS Plan 2		
Actual Contribution Rates:	Employer	Employee
PSERS Plan 2	6.59%	6.59%
PERS Plan 1 UAAL	4.77%	-
Administrative Fee	0.18%	-
Total	11.54%	6.59%

The City's actual contributions to the plan were \$ 37,633 PERS Plan 1 UAAL and \$ 53,412 to PSERS Plan 2 for the year ended December 31, 2016.

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 2016. 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 2016 were as follows:

LEOFF Plan 2		
Actual Contribution Rates:	Employer	Employee
State and local governments	5.05%	8.41%
Administrative Fee	0.18%	-
TOTAL	5.23%	8.41%
Ports and Universities	8.41%	8.41%
Administrative Fee	0.18%	-
TOTAL	8.59%	8.41%

The City's actual contributions to the plan were \$373,246 for the year ended December 31, 2016.

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, 2016, the state contributed \$60,375,158 to LEOFF Plan 2. The amount recognized by the City as its proportionate share of this amount is \$1,325,167.

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, 2016, are summarized in the table below. The inflation component used to create the table is 2.2 percent and represents the WSIB's most recent long-term estimate of broad economic inflation.

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

Sensitivity of 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	\$ 8,370,097	\$ 6,940,958	\$ 5,711,096
PERS 2/3	13,984,831	7,595,581	(3,953,938)
PSERS 2	457,011	105,250	(145,311)
LEOFF 1	(95,624)	(160,972)	(216,830)
LEOFF 2	3,717,818	(1,325,767)	(5,127,166)

Pension Plan Fiduciary Net Position

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

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

At June 30, 2016, the City reported a total pension liability of \$ 14,641,789 and a total pension asset of (\$ 1,486,739) for its proportionate share of the net pension liabilities as follows:

	Liability (or Asset)
PERS 1	\$ 6,940,958
PERS 2/3	7,595,581
PSERS 2	105,250
LEOFF 1	(160,972)
LEOFF 2	(1,325,767)

The amount of the liability/(asset) reported above for LEOFF Plans 1 and 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:

	LEOFF 1	LEOFF 2
Employer's proportionate share	(160,972)	(1,325,767)
State's proportionate share of the net pension liability/(asset) associated with the employer	(1,088,810)	(864,304)
TOTAL	(1,249,782)	(2,190,071)

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

	Proportionate Share 6/30/15	Proportionate Share 6/30/16	Change in Proportion
PERS 1	.129963%	.129243%	(.000720%)
PERS 2/3	.153107%	.150858%	(.002249%)
PSERS 2	.306379%	.247658%	(.058721%)
LEOFF 1	.015457%	.015624%	.000167%
LEOFF 2	.222857%	.227940%	.005083%

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 2016. 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 2016, the state of Washington contributed 39.46 percent of LEOFF 2 employer contributions pursuant to RCW 41.27.726 and all other employers contributed the remaining 60.54 percent of employer contributions.

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

Pension Expense

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

	Pension Expense
PERS 1	\$ (21,145)
PERS 2/3	1,414,757
PSERS 2	94,547
LEOFF 1	(22,493)
LEOFF 2	426,255
TOTAL	1,891,921

Deferred Outflows of Resources and Deferred Inflows of Resources

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

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	174,762	-
Changes of assumptions	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	-	-
Contributions subsequent to the measurement date	377,319	-
TOTAL	552,081	-

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	404,459	(250,743)
Net difference between projected and actual investment earnings on pension plan investments	929,480	-
Changes of assumptions	78,507	-
Changes in proportion and differences between contributions and proportionate share of contributions	59,168	(70,966)
Contributions subsequent to the measurement date	451,915	-
TOTAL	1,923,529	(321,709)

PSERS 2	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	35,851	-
Net difference between projected and actual investment earnings on pension plan investments	21,707	-
Changes of assumptions	409	-
Changes in proportion and differences between contributions and proportionate share of contributions	-	(5,700)
Contributions subsequent to the measurement date	26,450	-
TOTAL	84,417	(5,700)

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	16,363	-
Changes of assumptions	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	-	-
Contributions subsequent to the measurement date	-	-
TOTAL	16,363	-

LEOFF 2	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	181,666	-
Net difference between projected and actual investment earnings on pension plan investments	476,401	-
Changes of assumptions	4,999	-
Changes in proportion and differences between contributions and proportionate share of contributions	-	(62,849)
Contributions subsequent to the measurement date	185,023	-
TOTAL	848,089	(62,849)

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

Year ended December 31:	PERS 1	PERS 2/3	PSERS 2	LEOFF 2	LEOFF 1
2017	(43,030)	7,847	6,078	(20,125)	(3,381)
2018	(43,030)	7,847	6,078	(20,125)	(3,381)
2019	160,500	698,426	19,451	379,992	14,171
2020	100,322	436,082	15,025	257,367	8,954
2021	-	-	6,231	3,109	-
Thereafter	-	-	(596)	-	-
Total	174,762	1,150,203	52,267	600,217	16,363

Other Post-Employment Medical Benefits

Plan Description

As required by the Revised Code of Washington (RCW) Chapter 41.26, the City provides lifetime medical care for 9 LEOFF 1 retirees. The City provides medical insurance and reimbursements for all necessary hospital, medical, and nursing care expenses not payable by worker's compensation, social security, insurance provided by another employer, other pension plan, or any other similar source. Medical insurance for the retirees is provided by the City's employee medical insurance program. Under the authorization of the LEOFF Disability Board, direct payment is made for other retiree medical expenses not covered by standard medical plan benefit provisions.

The City provides health coverage for LEOFF 1 retirees through a medical plan purchased through the Association of Washington Cities (AWC) Employees Benefit Trust. In addition, the City pays or reimburses eligible retired LEOFF 1 police officers the necessary usual and customary medical expenses in excess of those covered by the applicable insurance plan. The City also purchases a long-term care insurance plan for eligible LEOFF 1 members. Dental costs and dependents are not covered.

Funding Policy

Funding for LEOFF 1 retiree healthcare costs is provided by the City as required by RCW. These medical benefits are funded on a pay-as-you-go basis through the General Fund and paid out of the Police Department budget. Health insurance premiums are paid monthly and long-term care insurance is paid annually. Other medical services are paid as billings are presented for reimbursement. The City reimbursed 100 percent of the amount of validated claims for medical costs incurred by these individuals. Amounts paid from 2014 through 2016 by the City out of the General Fund are as follows:

	2016	2015	2014
AWC medical premiums	\$ 69,862	\$ 68,013	\$ 72,172
Reimbursement of other eligible costs	19,469	21,191	16,905
Long-term care insurance premiums	22,485	22,485	22,485
Total	<u>\$ 111,816</u>	<u>\$ 111,689</u>	<u>\$ 111,562</u>
Average cost per retiree	\$ 12,424	\$ 12,410	\$ 12,396

Annual OPEB Cost and Net OPEB Obligation

The City's annual other postemployment benefit (OPEB) cost is calculated based upon the annual required contribution (ARC), an amount calculated using the alternative measurement method in accordance with the parameters of GASB Statement 45 for employers in plans with fewer than one hundred total plan members utilizing the interactive tool developed by the Office of the State Actuary OSA for use by local government. The ARC represents a level of funding that, if paid on an ongoing basis is projected to cover the normal cost each year and amortize any unfunded accrued actuarial liabilities (UAAL) over a period of twenty years as of December 31, 2016. The following table shows the components of the City's annual OPEB cost for the year,

and the amount actually contributed. The net OPEB obligation is included as a noncurrent liability on the Statement of Net Position.

	<u>12/31/2016</u>
Annual required contribution	\$ 422,539
Interest on net OPEB obligation	39,452
Adjustment to annual required contribution	<u>(88,709)</u>
Annual OPEB cost (expense)	373,282
Contributions made	<u>(111,817)</u>
Change in NPO	261,465
Net OPEB Obligation - Beginning of Year	986,298
Net OPEB Obligation - End of Year	<u>\$ 1,247,763</u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed and the net OPEB obligation for 2016 and the two preceding years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/2014	298,291	37.4%	721,419
12/31/2015	376,569	29.7%	986,298
12/31/2016	373,282	29.9%	1,247,763

Funding Status and Funding Progress

As of December 31, 2016, the actuarial accrued liability (AAL) for benefits was \$4,697,950 all of which was unfunded. The covered payroll (total annual amount for active LEOFF Plan 1 members) was \$0, as there were no active members, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 0 percent.

The projection of future benefit payments of an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, 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 schedule of funding progress, presented as required, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

The City has used the alternative measurement method permitted under GASB Statement No. 45. A single retirement age of 55.3 was assumed for all active members for the purpose of determining the AAL and normal cost. Retirement, disablement, termination and mortality rates were assumed to follow the LEOFF 1 rates in the June 30, 2014 actuarial valuation report issued by the Office of the State Actuary (OSA). Healthcare costs and trends were determined by Milliman and used by OSA in the state-wide LEOFF 1 medical study performed in 2013. The results were based on grouped data with 4 active groupings and 4 inactive groupings. The actuarial cost method used to determine the AAL was Projected Unit Credit method. The AAL and NOO are amortized on an open basis as a level dollar over 15 years. These assumptions are individually and collectively reasonable for the purposes of this valuation. The interest rate is 5.0%. The amortization period is 20 years (closed) and the medical inflation factor was plus or minus 1%.

NOTE 7 – RISK MANAGEMENT

The City of Marysville is a member of the Washington Cities Insurance Authority (WCIA). Over the past three years settlements have not exceeded the City's coverage limits.

Utilizing Chapter 48.62 RCW (self-insurance regulation) and Chapter 39.34 RCW (Interlocal Cooperation Act), nine cities originally formed WCIA on January 1, 1981. WCIA was created for the purpose of providing a pooling mechanism for jointly purchasing insurance, jointly self-insuring, and/or jointly contracting for risk management services. WCIA has a total of 168 members.

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

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

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

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

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

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

A Board of Directors governs WCIA, which is comprised of one designated representative from each member. The Board elects an Executive Committee and appoints a Treasurer to provide general policy direction for the organization. The WCIA Executive Director reports to the Executive Committee and is responsible for conducting the day to day operations of WCIA.

NOTE 8 – LONG-TERM DEBT

Advanced Refunding

In 2016, the City of Marysville issued \$4,990,000 in limited tax general obligation refunding bonds with an interest rate of 2.0% to advance refund \$4,885,000 of outstanding 2007(A) limited tax general obligation bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the governmental activities column of the statement of net position. The reacquisition prices exceeded the net carrying amount of the old debt by \$224,960. This amount is being amortized over 10 years. This refunding was undertaken to reduce total debt service payments over the next ten years by \$740,344 and to obtain an economic gain of \$647,466.

The city issues general obligation bonds to finance the purchase, acquisition, and construction of significant capital assets. General obligation bonds have been issued for both general government and business-type activities and are being repaid from the applicable resources. Federal obligation bonds are direct obligations and pledge the full faith and credit of the government.

General government obligation bonds outstanding at December 31, 2016 are as follows:

DESCRIPTION	DATE OF ISSUE	DATE OF FINAL MATURITY	INTEREST RATE (S)	AMOUNT ORIGINALLY ISSUED	REDEMPTION TO DATE	DEBT OUTSTANDING
Governmental Activities						
LTGO Refunding Bonds 2013	10/16/13	12/01/23	3.00-5.00	6,315,000	970,000	5,345,000
LTGO Bonds Series 2007A	05/01/07	12/01/27	4.00-5.50	8,045,000	7,655,000	390,000
LTGO Bonds Series 2016 Refunding	09/01/14	12/01/27	2.00	4,990,000	-	4,990,000
LTGO Bonds 2010	10/01/10	12/01/34	2.00-5.00	4,990,000	455,000	4,535,000
LTGO Bonds 2013	10/16/13	12/01/30	3.00-5.00	9,005,000	1,155,000	7,850,000
Total Governmental Activities				\$ 33,345,000	\$ 10,235,000	\$ 23,110,000
Business Activities						
Golf Course	05/17/07	12/01/17	3.90-5.30	2,120,000	1,240,000	880,000
Pro-Shop/Restaurant Remodel	08/06/03	08/01/18	5.25	1,740,982	1,472,522	268,460
Total Business Activities				3,860,982	2,712,522	1,148,460
Special Assessments						
LID 71 - 156th Street Overpass	09/23/14	06/01/36	2.05-4.15	6,022,846	1,772,846	4,250,000
Total Special Assessments				6,022,846	1,772,846	4,250,000
TOTAL GENERAL OBLIGATION BONDS				\$ 43,228,828	\$ 14,720,368	\$ 28,508,460

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

YEAR ENDING 12/31	GOVERNMENTAL ACTIVITIES			BUSINESS -TYPE ACTIVITIES			SPECIAL ASSESSMENT		
	PRINCIPAL	INTEREST	TOTAL	PRINCIPAL	INTEREST	TOTAL	PRINCIPAL	INTEREST	TOTAL
2017	1,330,000	850,325	2,180,325	318,215	56,957	375,172	-	170,335	170,335
2018	1,635,000	800,225	2,435,225	275,245	40,006	315,251	-	170,335	170,335
2019	1,700,000	731,825	2,431,825	175,000	29,137	204,137	-	170,335	170,335
2020	1,840,000	660,625	2,500,625	185,000	19,949	204,949	-	170,335	170,335
2021	1,900,000	597,125	2,497,125	195,000	10,238	205,238	-	170,335	170,335
2022-2026	8,430,000	1,979,149	10,409,149	-	-	-	-	851,675	851,675
2027-2031	4,960,000	799,963	5,759,963	-	-	-	-	851,675	851,675
2032-2036	1,315,000	106,600	1,421,600	-	-	-	4,250,000	851,675	5,101,675
TOTAL	\$ 23,110,000	\$ 6,525,837	\$ 29,635,837	\$ 1,148,460	\$ 156,287	\$ 1,304,747	\$ 4,250,000	\$ 3,406,700	\$ 7,656,700

Business-type Long-Term Debt

The City issues revenue bonds to finance construction projects for the City's utilities. Revenue bonds are payable from revenues generated by the user fees, and are backed by the Waterworks Utility fund. Revenue debt outstanding as of December 31, 2016 is as follows:

DESCRIPTION	DATE OF ISSUE	DATE OF FINAL MATURITY	INTEREST RATE (S)	AMOUNT ORIGINALLY ISSUED	REDEMPTION TO DATE	DEBT OUTSTANDING
Water Revenue Bonds	05/31/05	04/01/28	3.750-5.125	48,355,000	48,355,000	-
Water Revenue Bonds	05/29/14	04/01/28	2.00-5.00	39,945,000	2,795,000	37,150,000
TOTAL REVENUE BONDS				\$ 88,300,000	\$ 51,150,000	\$ 37,150,000

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

YEAR ENDING	BUSINESS-TYPE ACTIVITY		
12/31	PRINCIPAL	INTEREST	TOTAL
2017	2,420,000	1,431,450	3,851,450
2018	2,505,000	1,345,050	3,850,050
2019	2,610,000	1,122,300	3,732,300
2020	2,730,000	1,242,750	3,972,750
2021	2,865,000	982,425	3,847,425
2022-2026	16,550,000	2,696,200	19,246,200
2027-2028	7,470,000	225,750	7,695,750
TOTAL	\$ 37,150,000	\$ 9,045,925	\$ 46,195,925

The City's governmental activities includes the Snohomish County LTGO bonds for the City of Marysville's portion of the 800 MHZ project. This represents the City's liability to Snohomish County.

The City's business type activities consist of multiple Public Works Trust Funds Loans and a Drinking Water Revolving Fund Loan used to update the Wastewater Treatment Plant and to construct a new filtration plant.

Other Business-type long-term debt outstanding as of December 31, 2016 is as follows:

DESCRIPTION	DATE OF ISSUE	DATE OF FINAL MATURITY	INTEREST RATE (S)	AMOUNT ORIGINALLY ISSUED	REDEMPTION TO DATE	DEBT OUTSTANDING
Governmental Activities						
800 MHZ	10/01/99	12/01/19	4.75-6.00	\$ 1,013,033	\$ 1,013,033	\$ -
800 MHZ (Refunded)	08/27/15	12/01/19	5.00	\$ 381,842	\$ 142,933	\$ 238,909
Total Governmental Activities				1,394,875	1,155,966	238,909
PWTFL-WWTP	10/22/01	07/01/21	0.50	1,000,000	736,842	263,158
PWTFL-WWTP	02/04/02	07/01/22	0.50	10,000,000	6,823,530	3,176,470
PWTFL-WWTP Phase II	05/13/04	07/01/24	0.50	10,000,000	5,789,474	4,210,526
DWRFL-Stillly Well	12/12/03	10/01/23	1.50	4,080,000	2,523,216	1,556,784
Total Other Long Term Obligations				25,080,000	15,873,062	9,206,938
TOTAL BUSINESS-TYPE LONG TERM OBLIGATIONS				\$ 26,474,875	\$ 17,029,028	\$ 9,445,847

Annual debt service requirement to maturity for other long term debt is as follows:

YEAR ENDING 12/31	GOVERNMENTAL ACTIVITIES			BUSINESS-TYPE ACTIVITIES		
	PRINCIPAL	INTEREST	TOTAL	PRINCIPAL	INTEREST	TOTAL
2017	76,017	11,945	87,962	1,330,757	61,603	1,392,360
2018	79,369	8,145	87,514	1,330,757	52,725	1,383,482
2019	83,523	4,176	87,699	1,330,756	43,846	1,374,602
2020	-	-	-	1,330,756	34,969	1,365,725
2021	-	-	-	1,330,754	26,091	1,356,845
2022-2024	-	-	-	2,553,158	28,445	2,581,603
TOTAL	\$ 238,909	\$ 24,266	\$ 263,175	\$ 9,206,938	\$ 247,679	\$ 9,454,617

At December 31, 2016, the City has \$ 776,253 available in governmental debt service funds to service the general bonded debt. Restricted assets in proprietary funds contain \$ 5,547,716 in sinking funds and reserves as required by bond indentures.

NOTE 9 – LEASES

Lease Revenue

The City entered into a lease with option to purchase agreement with the Boys and Girls Club of Snohomish County leasing a portion of the City facility located at 1010 Beach Avenue. The lease agreement began on January 1, 2010 and will terminate on December 31, 2024, with the option to extend an additional five years. The option to purchase the facility cannot be exercised prior to the termination of the lease period. This asset has a cost of \$ 1,777,533, accumulated depreciation of \$83,696 and a carrying value of \$1,693,837. Non-cancelable lease provides for a minimum annual payment as follows:

Year Ending December 31	Minimum Future Rent
2017	28,529
2018	28,529
2019	28,529
2020	28,529
2021	28,529
2022-2024	85,588
Total	\$ 228,233

NOTE 10 – CHANGES IN LONG-TERM LIABILITIES

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

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
Governmental Activities					
Bonds payable:					
General obligation bonds	\$ 24,290,000	\$ 4,990,000	\$ (6,170,000)	\$ 23,110,000	\$ 1,330,000
For issuance premiums	922,563	217,805	(93,526)	1,046,842	-
Total bonds Payable	25,212,563	5,207,805	(6,263,526)	24,156,842	1,330,000
800Mhz Project	311,571	-	(72,662)	238,909	76,017
Special Assessment	5,107,846	-	(857,846)	4,250,000	-
Pension Liabilities	8,320,087	2,195,320	-	10,515,407	-
Other post-employment benefits	986,298	261,465	-	1,247,763	-
Compensated absences	1,842,367	2,062,638	(1,842,367)	2,062,638	1,031,318
Governmental activity long-term liabilities:	\$ 41,780,732	\$ 9,727,228	\$ (9,036,401)	\$ 42,471,559	\$ 2,437,335
Business-Type Activities					
Bonds payable:					
General obligation bonds	\$ 1,448,434	\$ -	\$ (299,974)	\$ 1,148,460	\$ 318,215
Revenue Bond	39,475,000	-	(2,325,000)	37,150,000	2,420,000
For issuance discounts	(1,932)	965	-	(967)	-
For issuance premiums	3,638,804	-	(303,233)	\$ 3,335,571	-
Total bonds Payable	44,560,306	965	(2,928,207)	41,633,064	2,738,215
Public Works Trust Fund Loans	10,537,695	-	(1,330,757)	9,206,938	1,330,757
Pension Liabilities	4,004,708	121,675	-	4,126,383	-
Compensated absences	321,058	322,790	(321,058)	322,790	161,395
Business-type activity long-term liabilities:	\$ 59,423,767	\$ 445,430	\$ (4,580,022)	\$ 55,289,175	\$ 4,230,367

1) The general fund has been used to liquidate other post employment benefits

Since internal service funds predominantly serve the governmental funds, their long-term liabilities are included as part of the above totals for governmental activities. At year end \$ 99,461 of internal service funds compensated absences are included in the above amounts. Also, for the governmental activities compensated absences are generally liquidated by the general fund.

Arbitrage

Arbitrage occurs when the City invests funds borrowed at tax-exempt rates of interest in higher yielding securities. These interest earnings in excess of interest expense must be remitted to the federal government. At the fund level, the City recognizes this liability only when it is due and payable. The City had no arbitrage excess earnings liability in 2016.

NOTE 11 - CONTINGENCIES AND LITIGATION

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 any such potential disallowances, if any, would be immaterial.

The City of Marysville is the defendant in certain legal actions. At this time the City Attorney is unable to determine the probability of the outcomes in these cases. However, in all cases of legal actions against the city, the City Attorney believes there are meritorious defenses to the plaintiffs' claims, and that both separately and collectively the alleged damages in these

cases are within the coverage limits of the city's insurance policies. Therefore, the city believes that the costs of defending these claims, and any awards, if any, will not be material to the city's financial position.

NOTE 12 - INTERFUND TRANSACTIONS AND BALANCES

Loans between funds are classified as interfund loans receivable and payable, or advances to and from other funds depending on the time period for which the loan was made. Advances to other funds are typically loans that are not expected to be repaid within one year from the date of the financial statements. Interfund loans receivable and payable are used primarily to meet short-term cash flow requirements while waiting for other financing instruments to be put in place.

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 one fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. Interfund activity for the year is as follows:

Fund	Total Transfer Out	Transfer In							
		General	Street Construction	Street Maintenance	Nonmajor Governmental	Waterworks Utility	Solid Waste	Nonmajor Enterprise	Internal Services
General Fund	3,400,326	-	-	1,472,622	1,504,922	-	-	278,415	144,367
Street Construction	880,475	-	-	-	880,475	-	-	-	-
Street Maintenance	-	-	-	-	-	-	-	-	-
Nonmajor Governmental Funds	2,886,769	82,026	1,608,590	1,089,166	96,987	-	-	10,000	-
Waterworks Utility	1,816,014	767,704	-	685,793	-	-	-	-	362,517
Solid Waste	351,198	-	-	-	-	-	-	-	351,198
Total Transfer In	\$ 9,334,782	\$ 849,730	\$ 1,608,590	\$ 3,247,581	\$ 2,482,384	\$ -	\$ -	\$ 288,415	\$ 858,082

Current year transfers were to fund street maintenance, street construction, debt service, and vehicle purchases. The General fund provides an annual subsidy to the Golf Course, and the Waterworks Utility provides annual funding to Street Maintenance for surface water activities.

NOTE 13 – JOINT VENTURES

Snohomish County Fire Protection District 12

Effective January 1, 1992, Snohomish County Fire Protection District 12 entered into an interlocal agreement with the City of Marysville (City) to create the Marysville Fire District. The interlocal agreement provides for the joint operation of the Marysville Fire District administered by a six member governing board consisting of three Fire Protection District 12 Commissioners and three City of Marysville Council members. The board administers and manages the operations of the Marysville Fire District to provide fire protection and emergency medical response services in the City and District 12. Financial contribution by the City of Marysville for the 2016 calendar year was an amount equal to the prior year's contribution multiplied by the percent change (rounded to the nearest tenth) in levy amount calculated as if the City and District 12 were combined. The calculation will begin with the combining of the prior year levy amounts for the City and District 12, as determined by the Snohomish County Assessor, to determine the "base amount". The base amount was increased by 1%. In addition, new construction and state assessed property increase will be included with the assessed values for new construction multiplied by the prior year agreement levy rate and the current year's state assessed property value less last year's state assessed property value with the remainder multiplied by the prior year agreement levy rate. The City's financial contribution for year ended December 31, 2015 was \$9,734,442. Separate financial statements for the joint venture may be obtained from Snohomish County Fire Protection District 12, Finance Department, 1094 Cedar Ave, Marysville, WA 98270.

An equity interest exists for the City of Marysville. Ending Cash and Investments for Fire District 12 as of December 31, 2016 were \$13,979,484. As of December 31, 2016, the City of Marysville has a 78.25% share of the equity. The City reports its share of equity interest as an investment in joint venture in the government-wide state of net position.

The following is condensed financial information:

MARYSVILLE FIRE DISTRICT FUNDS ONLY
Fund Resources and Uses Arising From Cash Transactions
For the Year Ended December 31, 2016

	<u>Total Marysville Fire</u>
Beginning Cash and Investments	15,004,334
Total Revenues	15,490,728
Total Expenditures	<u>16,457,168</u>
Excess (Deficiency) Revenues over Expenditures:	(966,440)
Total Other Increases in Fund Revenues:	455,317
Total Other Decreases in Fund Resources:	<u>513,726</u>
 Increase (Decrease) in Cash and Investments	 <u>(1,024,849)</u>
 Total Ending Cash and Investments	 <u>13,979,484</u>
 City of Marysville's Equity %	 78.25%
City of Marysville's Equity Interest	10,938,947

On July 30, 2015 the City of Marysville sent notice of termination to Fire District 12, beginning a three-year termination period per the interlocal agreement.

On March 14, 2016 the Marysville City Council approved an amendment, submitted by Fire District 12, to the agreement with Fire District 12 to accelerate the termination of the existing interlocal agreement from the initial three-year period to December 31, 2016. The City is currently in negotiations with Fire District 12 and other local entities to establish a Regional Fire District (RFA). The City anticipates the formation be complete with the next two years.

Snohomish County Emergency Radio System

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 with Snohomish County, SNOCOM, SNOPAC, and the Cities of Brier, Edmonds, Lynnwood, Marysville, Mill Creek, Mountlake Terrace, Mukilteo, and Woodway. The purpose of SERS is to design, develop, finance, acquire, install, operate, maintain, repair and replace the county's public safety communications service. 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. As of December 31, 2016, an equity interest in the SERS joint venture of \$ 331,382 was recorded in governmental activities on the statement of net position. Separate financial statements for the joint venture may be obtained from Snohomish County, Finance Department, 3000 Rockefeller Avenue, Everett, WA 98201.

SNOPAC 911 Emergency Communications

The City and other Police and Fire entities (currently 37) operate jointly the Snohomish County Police Staff and Auxiliary Service Center, (SNOPAC). SNOPAC, a cash basis, special purpose district, was created under the Interlocal Cooperation Act, as codified in RCW 39.34. 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. 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 include police, fire and medical aid.

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 under this agreement shall be returned to the parties to this agreement in proportion to their contribution during the fiscal year of dissolution. Before deducting the payment of all costs, expenses and charges validly incurred, the city's share was \$1,678,518 on December 31, 2016. Complete financial statements for SNOPAC can be obtained from SNOPAC's administrative office at 1121 SE Everett Mall Way, Suite 200, Everett, WA 98208.

Alliance of Housing Affordability

In September 2013, the City of Marysville joined the cities of Everett, Granite Falls, Lake Stevens, Lynnwood, Mill Creek, Mountlake Terrace, Mukilteo, Snohomish, the Town of Woodway and Snohomish County to establish the Alliance of Housing Affordability (AHA). The agreement was amended in May 2014, to add the City of Arlington and in June 2014, to add the City of Stanwood. The purpose of the AHA is to cooperatively formulate affordable housing goals and policies and to foster efforts to prove affordable housing by providing expertise and information to member jurisdictions. Operating funding is provided by the member cities.

AHA is governed by a joint board composed of an elected official from each of the members. 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 of Snohomish County. Fiscal agent duties are performed by the City of Mountlake Terrace.

Each member city is responsible for contributing operating revenue as determined from the AHA annual budget. Contributions from the member cities are based on population. A grant from the Gates Foundation provided \$50,000 to assist with the first two years of start-up costs. The City of Marysville's equity share to date is:

Year	AHA Budget	Marysville's share	% of Budget
2013	\$ 89,850	\$ 3,613	4.0%
2014	92,543	3,721	4.0%
2015	123,464	3,702	3.0%
2016	145,590	3,675	2.5%
2017	97,934	5,513	5.6%

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 the Finance Director, City of Mountlake Terrace, 6100 219th Street SW, Mountlake Terrace, WA 98043 or from Kristina Gallant, Housing Analyst, Alliance for Housing Affordability, 12625 4th Ave W., Suite 200, Everett, WA 98204.

AWC Employee Benefit Trust

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

An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The AWC Trust HCP was formed on January 1, 2014 when participating cities, towns, and non-city entities of the AWC Employee Benefit Trust in the State of Washington joined together by signing an Interlocal Governmental Agreement to jointly self-insure certain health benefit plans and programs for participating employees, their covered dependents and other beneficiaries through a designated account within the Trust. As of December 31, 2016, 281 cities/towns/non-city entities participate in the AWC Trust HCP.

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

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

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

The operations of the Health Care Program are managed by the Board of Trustees or its delegates. The Board of Trustees is comprised of four regionally elected officials from Trust member cities or towns, the Employee Benefit Advisory Committee Chair and Vice Chair, and the AWC Board of Directors President and Vice President. The Trustees or its appointed delegates review and analyze Health Care Program related matters and make operational decisions regarding premium contributions, reserves, plan options and benefits in compliance with Chapter 48.62 RCW. The Board of Trustees has decision authority consistent with the Trust Agreement, Health Care Program policies, Chapter 48.62 RCW and Chapter 200-110-WAC.

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

NOTE 14– POLLUTION REMEDIATION OBLIGATION

On December 20, 2016, the City purchased the WELCO Lumber company property located at 1218 1st Street, Marysville, WA. At the time of purchase, the City recognized that the property would require hazardous substance clean-up. In 2017, studies will be conducted to determine the type of hazardous substances present and to estimate the liability with regard to pollution remediation at this site.

NOTE 15– OTHER DISCLOSURES

NET INVESTMENT IN CAPITAL ASSETS CALCULATION

	Governmental Activity	Business Activity
Net Capital Assets	172,633,044	160,856,842
Less Noncurrent Debt	(26,192,893)	(43,436,427)
Less Current Debt Principal	(1,406,017)	(4,068,972)
Less Debt Premium	(1,046,842)	(3,334,605)
Plus Deferred Outflow Related to Debt	224,961	514,571
Net investments in capital assets	144,212,253	110,531,409

**SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2016**

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET - POSITIVE (NEGATIVE)
REVENUES				
Taxes	\$ 34,769,394	\$ 34,861,394	\$ 34,824,899	\$ (36,495)
Licenses & Permits	1,830,554	1,830,554	2,197,180	366,626
Intergovernmental	1,198,086	1,811,396	1,868,354	56,958
Charges for Services	3,179,822	3,179,822	3,129,950	(49,872)
Fines & Forfeitures	524,837	524,837	435,560	(89,277)
Investment Earnings	189,596	189,596	224,348	34,752
Rents & Leases	257,248	279,248	557,530	278,282
Miscellaneous Revenues	280,985	280,985	43,342	(237,643)
Total Revenues	42,230,522	42,957,832	43,281,163	323,331
EXPENDITURES				
Current:				
Judicial	1,462,667	1,456,620	1,439,991	16,629
General Government	3,947,634	4,265,520	3,340,531	924,989
Public Safety	26,981,293	27,598,535	26,889,658	708,877
Physical Environ	1,257,173	1,251,957	1,187,622	64,335
Health & Human Services	41,400	41,400	23,593	17,807
Economic Environment	2,428,713	2,565,259	2,367,751	197,508
Culture & Recreation	2,585,676	2,727,269	2,837,576	(110,307)
Capital Outlay				
Public safety	-	-	9,884	(9,884)
Culture & recreation	-	-	30,391	(30,391)
Total Expenditures	38,704,556	39,906,560	38,126,997	1,779,563
EXCESS (DEFICIENCY) OF REVENUE OVER (UNDER) EXPENDITURES	3,525,966	3,051,272	5,154,166	2,102,894
OTHER FINANCING SOURCES (USES)				
Transfers in	864,255	879,255	849,730	(29,525)
Transfers out	(4,162,142)	(4,398,142)	(3,400,326)	997,816
Total other financing sources (uses)	(3,297,887)	(3,518,887)	(2,550,596)	968,291
Net change in fund balances	228,079	(467,615)	2,603,570	3,071,185
Fund balances--beginning	13,672,782	13,672,782	14,756,671	1,083,889
FUND BALANCES - ENDING	\$ 13,900,861	\$ 13,205,167	\$ 17,360,241	\$ 4,155,074

The city's budget is adopted on a GAAP basis.

**SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FUND 101 - STREET FUND
FOR THE YEAR ENDED DECEMBER 31, 2016**

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE/ (NEGATIVE)
REVENUES				
Licenses & Permits	\$ 50,000	\$ 50,000	\$ 48,278	\$ (1,722)
Intergovernmental	1,269,528	1,269,528	1,484,127	214,599
Charges for Services	-	-	84,196	84,196
Investment Earnings	-	-	829	829
Miscellaneous Revenues	10,000	10,000	56,147	46,147
TOTAL REVENUES	1,329,528	1,329,528	1,673,577	344,049
EXPENDITURES				
Current:				
General Government	35,595	35,595	14,199	21,396
Transportation	5,881,370	5,881,370	5,189,720	691,650
Capital Outlay	46,000	46,000	-	46,000
TOTAL EXPENDITURES	5,962,965	5,962,965	5,203,919	759,046
EXCESS (DEFICIENCY) OF REVENUE OVER (UNDER) EXPENDITURES	(4,633,437)	(4,633,437)	(3,530,342)	1,103,095
OTHER FINANCING SOURCES (USES):				
Transfers In	4,633,437	4,633,437	3,247,581	(1,385,856)
Transfers Out	-	-	-	-
Total other financing sources (uses)	4,633,437	4,633,437	3,247,581	(1,385,856)
Net change in fund balances	-	-	(282,761)	(282,761)
Fund balances - beginning	-	-	497,001	497,001
FUND BALANCES - ENDING	\$ -	\$ -	\$ 214,240	\$ 214,240

The city's budget is adopted on a GAAP basis

SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

Public Employees' Retirement System - Plan 1

As of June 30, 2016

Last 2 Fiscal Years

	2015	2016
Employer's proportion of the net pension liability (asset)	0.129963%	0.129243%
Employer's proportionate share of the net pension liability	\$ 6,798,274	\$ 6,940,958
Employer's covered employee payroll*	\$14,122,963	\$ 15,267,909
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	48.14%	45.46%
Plan fiduciary net position as a percentage of the total pension liability	59.10%	57.03%

Public Employees' Retirement System - Plan 2/3

As of June 30, 2016

Last 2 Fiscal Years

	2015	2016
Employer's proportion of the net pension liability (asset)	0.153107%	0.150858%
Employer's proportionate share of the net pension liability	\$ 5,470,600	\$ 7,595,581
Employer's covered employee payroll	\$13,645,668	\$ 14,200,149
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	40.09%	53.49%
Plan fiduciary net position as a percentage of the total pension liability	89.20%	85.82%

The City currently does not have 10 years of pension data available

SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

Public Safety Employees' Retirement System - Plan 2

As of June 30, 2016

Last 2 Fiscal Years

	2015	2016
Employer's proportion of the net pension liability (asset)	0.306379%	0.247658%
Employer's proportionate share of the net pension liability	\$ 55,920	\$ 105,250
Employer's covered employee payroll	\$ 888,526	\$ 803,986
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	6.29%	13.09%
Plan fiduciary net position as a percentage of the total pension liability	95.08%	90.41%

Law Enforcement Officers' and Fire Fighters' Retirement-Plan 1

As of June 30, 2016

Last 2 Fiscal Years

	2015	2016
Employer's proportion of the net pension asset	(0.015457%)	(0.015624%)
Employer's proportionate share of the net pension asset	\$ (186,291)	\$ (160,972)
LEOFF 1 employers only - State's proportionate share of the net pension asset associated with the employer	-	\$ (1,249,782)
TOTAL		
Employer's covered employee payroll	-	-
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	0.00%	0.00%
Plan fiduciary net position as a percentage of the total pension liability	127.36%	123.74%

LEOFF 1 is closed and no longer accepts contributions

The City currently does not have 10 years of pension data available

SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

Law Enforcement Officers' and Fire Fighters' Retirement-Plan 2

As of June 30, 2016

Last 2 Fiscal Years

	2015	2016
Employer's proportion of the net pension asset	(0.222857%)	(0.227940%)
Employer's proportionate share of the net pension Asset	\$ (2,290,524)	\$ (1,325,767)
LEOFF 2 employers only - State's proportionate share of the net pension liability (asset) associated with the employer	\$ (1,514,498)	\$ (2,190,071)
TOTAL	<u>\$ (3,805,022)</u>	<u>\$ (3,515,838)</u>
Employer's covered employee payroll	\$ 6,467,801	\$ 6,905,245
Employer's proportionate share of the net pension asset as a percentage of covered employee payroll	35.41%	19.20%
Plan fiduciary net position as a percentage of the total pension liability	111.67%	106.04%

The City currently does not have 10 years of pension data available

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Public Employees' Retirement System - Plan 1

As of December 31, 2016

Last 2 Fiscal Years

	<u>2015*</u>	<u>2016</u>
Statutorily or contractually required contributions	\$ 665,362	\$ 744,788
Contributions in relation to the statutorily or contractually required contributions	<u>\$ (665,362)</u>	<u>\$ (744,788)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Covered employer payroll	\$ 15,082,608	\$ 15,418,859
Contributions as a percentage of covered employee payroll	4.41%	4.83%

Public Employees' Retirement System - Plan 2/3

As of December 31, 2016

Last 2 Fiscal Years

	<u>2015*</u>	<u>2016</u>
Statutorily or contractually required contributions	\$ 817,579	\$ 877,097
Contributions in relation to the statutorily or contractually required contributions	<u>\$ (817,579)</u>	<u>\$ (877,097)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Covered employer payroll	\$ 14,116,258	\$ 14,394,571
Contributions as a percentage of covered employee payroll	5.79%	6.09%

The City currently does not have 10 years of pension data available

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Public Safety Employees' Retirement System - Plan 2 As of December 31, 2016 Last 2 Fiscal Years

	<u>2015*</u>	<u>2016</u>
Statutorily or contractually required contributions	\$ 55,473	\$ 53,412
Contributions in relation to the statutorily or contractually required contributions	\$ (55,473)	\$ (53,412)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Covered employer payroll	\$ 838,497	\$ 788,947
Contributions as a percentage of covered employee payroll	6.62%	6.77%

Law Enforcement Officers & Fire Fighters' Retirement System Plan 2 As of December 31, 2016 Last 2 Fiscal Years

	<u>2015</u>	<u>2016</u>
Statutorily or contractually required contributions	\$ 350,634	\$ 373,246
Contributions in relation to the statutorily or contractually required contributions	\$ (350,634)	\$ (373,246)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Covered employer payroll	\$ 6,721,887	\$ 7,136,631
Contributions as a percentage of covered employee payroll	5.22%	5.23%

Notes to Schedule:

*In the 2015 RSI, the statutorily required contributions were not distributed correctly between PERS1, PERS 2-3, and PSERS. The 2015 numbers above reflect the revised distribution.

The City currently does not have 10 years of pension data available

OTHER POST-EMPLOYMENT MEDICAL BENEFITS (OPEB)

SCHEDULE OF FUNDING PROGRESS

Measurement Date	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability (AAL)	(3) Funded Ratio (1)/(2)	(4) Unfunded AAL/(UAAL) (2) - (1)	(5) Annual Covered Payroll	(6) UAAL as a Percentage of Covered Payroll
12/31/2008	-	3,102,730	0.0%	3,102,730	-	N/A
12/31/2009	-	3,192,515	0.0%	3,192,515	-	N/A
12/31/2010	-	3,060,708	0.0%	3,060,708	-	N/A
12/31/2011	-	2,722,621	0.0%	2,722,621	-	N/A
12/31/2012	-	2,790,393	0.0%	2,790,393	-	N/A
12/31/2013	-	2,487,921	0.0%	2,487,921	-	N/A
12/31/2014	-	3,613,406	0.0%	3,613,406	-	N/A
12/31/2015	-	4,587,418	0.0%	4,587,418	-	N/A
12/31/2016	-	4,697,950	0.0%	4,697,950	-	N/A

*The covered payroll was zero as all covered employees are retired

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