



Office of the Washington State Auditor
Pat McCarthy

Financial Statements and Federal Single Audit Report

City of Enumclaw

King County

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

Published September 14, 2017

Report No. 1019800





Office of the Washington State Auditor
Pat McCarthy

September 14, 2017

Mayor and City Council
City of Enumclaw
Enumclaw, Washington

Report on Financial Statements and Federal Single Audit

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

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

Sincerely,

Pat McCarthy
State Auditor
Olympia, WA

TABLE OF CONTENTS

Schedule Of Findings And Questioned Costs.....	4
Schedule Of Audit Findings And Responses.....	6
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	9
Independent Auditor’s Report On Compliance For Each Major Federal Program And Report On Internal Control Over Compliance In Accordance With The Uniform Guidance	12
Independent Auditor’s Report On Financial Statements	15
Financial Section.....	18
Corrective Action Plan For Findings Reported Under Uniform Guidance	97
About The State Auditor’s Office.....	99

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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

SECTION I – SUMMARY OF AUDITOR’S RESULTS

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

Financial Statements

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

Internal Control over Financial Reporting:

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

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

Federal Awards

Internal Control over Major Programs:

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

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

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

Identification of Major Federal Programs:

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

<u>CFDA No.</u>	<u>Program or Cluster Title</u>
66.468	Capitalization Grants for Drinking Water State Revolving Funds

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

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

SECTION II – FINANCIAL STATEMENT FINDINGS

See finding 2016-001.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

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

2016-001 The City's internal controls were inadequate to ensure accurate and complete financial reporting.

Background

City management is responsible for designing, implementing and maintaining internal controls to ensure financial statements are fairly presented and to provide reasonable assurance regarding the reliability of financial reporting. The City prepares its financial statements in accordance with generally accepted accounting principles (GAAP) as prescribed by the *Budgeting, Accounting and Reporting System (BARS) Manual*.

Our audit identified material weaknesses in controls over financial reporting that hindered the City's ability to produce reliable financial statements.

Government Auditing Standards requires the auditor to communicate material weaknesses, defined in the Applicable Laws and Regulations section below, as a finding.

Description of Condition

We identified the following deficiencies in internal controls over financial reporting that, when taken together, represent a material weakness over financial reporting:

- The City did not have adequate controls in place to ensure a federal loan was reported as a liability as GAAP requires.
- The City has procedures to review the financial statements and required schedules, but the review was not adequate to detect and correct errors before the audit.

Cause of Condition

The City prepares its financial statements in accordance with GAAP. These financial statements are complex, and the reporting requirements change frequently.

The City continues to experience turnover in key financial statement preparation positions, which prevents the City from establishing and maintaining necessary controls to ensure financial statements are accurately prepared. The City's established controls for preparing and reviewing the financial statements were not effective at identifying errors.

Effect of Condition

We identified several misstatements during our audit of the financial statements, which the City subsequently corrected. Specifically, the City:

- Did not report \$5,151,963 in Drinking Water Revolving Fund Loans incurred by the Water Fund as a Liability in the Proprietary Statement of Net Position. This caused the City to overstate intergovernmental revenues by \$4,608,249 and Net Position by \$543,714 in Proprietary Statement of Revenues, Expenditures and Proprietary Statement of Net Position, respectively.
- Improperly classified wastewater treatment plans/manuals as a Capital Asset in the Proprietary Statement of New Position. This caused the City to understate expenditures by \$232,535.

In addition, our audit identified multiple classification, presentation and disclosure errors on the City's financial statements, notes and supplementary schedules.

Recommendation

We recommend City management continue to strengthen internal controls over financial statement reporting. Specifically, we recommend the City:

- Use the BARS Manual's current accounting and reporting guidance when preparing financial statements.
- Ensure staff responsible for preparing financial statements have the necessary resources and training to prepare accurate and complete financial statements in accordance with the BARS Manual.
- Conduct an effective, independent financial statement review that ensures the statements and footnotes are prepared in accordance with all GASB standards and GAAP reporting principles.

City's Response

The City understands the importance of having adequate internal controls in place for the preparation of the financial statements. The City further understands the significance of financial statement review and for planning adequate time to ensure and guarantee the accuracy and completeness of the financial statements.

The City is committed to improving internal control processes and review oversight over financial statement preparation. The City has recently filled a vacant accountant position who will be an integral part of the financial statement preparation process. Staff will continue to receive annual training on GASB updates and changes in financial reporting. The City has corrected the two material misstatements noted in the finding prior to the issuance of the final report. The City will be hiring an independent third party to review the financial statements to ensure the statements and notes are prepared in accordance with GASB standards and GAAP reporting principles.

As difficult as it is to receive an audit finding, the City values the auditor's recommendations and appreciates the knowledge and professionalism of their staff.

Auditor's Remarks

We appreciate the City's commitment to resolve this finding. We will review the corrective action taken during our next audit. We thank the City for its cooperation and assistance during the audit.

Applicable Laws and Regulations

Government Auditing Standards, December 2011 Revision, paragraph 4.23 establishes reporting requirements related to significant deficiencies or material weaknesses in internal control, instances of fraud or abuse, and noncompliance with provisions of law, regulations, contracts, or grant agreements.

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its *Codification of Statements on Auditing Standards*, section 265, Communicating Internal Controls Related Matter Identified in an Audit, paragraph 7.

RCW 43.09.200 Local government accounting – Uniform system of accounting, requires the state auditor to prescribe the system of accounting and reporting for all local governments.

The *Budgeting, Accounting, and Reporting System (BARS) Manual*, 3.1.3, Internal Control, requires each local government to establish and maintain an effective system of internal controls that provides reasonable assurance that the government will achieve its objectives.

**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 Enumclaw
King County
January 1, 2016 through December 31, 2016**

Mayor and City Council
City of Enumclaw
Enumclaw, 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 Enumclaw, King County, Washington, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated September 1, 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Audit Findings and Responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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. We consider the deficiencies described in the accompanying Schedule of Audit Findings and Responses as Finding 2016-001 to be material weaknesses.

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*.

CITY'S RESPONSE TO FINDINGS

The City's response to the findings identified in our audit is described in the accompanying Schedule of Audit Findings and Responses. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However,

this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in black ink that reads "Pat McCarthy". The signature is fluid and cursive, with the first name "Pat" and last name "McCarthy" clearly legible.

Pat McCarthy

State Auditor

Olympia, WA

September 1, 2017

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

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

Mayor and City Council
City of Enumclaw
Enumclaw, Washington

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

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

Management's Responsibility

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

Auditor's Responsibility

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

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

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

Opinion on Each Major Federal Program

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

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal

control that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of this Report

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

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

Pat McCarthy

State Auditor

Olympia, WA

September 1, 2017

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

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

Mayor and City Council
City of Enumclaw
Enumclaw, 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 Enumclaw, King County, Washington, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed on page 18.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Enumclaw, as of December 31, 2016, and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparison for the General, Street and Transportation Benefit District fund, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

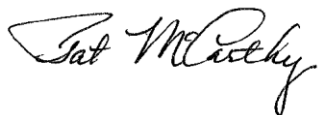
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 19 through 31 and pension plan information on pages 91 through 94 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

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

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated September 1, 2017 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Pat McCarthy

State Auditor

Olympia, WA

September 1, 2017

FINANCIAL SECTION

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

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2016

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2016

Statement of Activities – 2016

Balance Sheet – Governmental Funds – 2016

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

General and Major Special Revenue Fund Budgetary Comparisons – 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

Statement of Changes in Fiduciary Net Position – Fiduciary Funds – 2016

Notes to Financial Statements – 2016

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Proportionate Share of the Net Pension Liability – 2016

Schedule of Employer Contributions – 2016

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Expenditures of Federal Awards – 2016

Notes to the Schedule of Expenditures of Federal Awards – 2016

MANAGEMENT’S DISCUSSION AND ANALYSIS

The City of Enumclaw presents this discussion and analysis as part of the City’s financial activities for the fiscal year ending December 31, 2016. The information presented should be read in conjunction with the financial statements and the notes to the financial statements that follow.

Financial Highlights

- The assets and deferred outflows of resources of the City of Enumclaw exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$103,765,929. Of this amount, \$9,665,467 represents unrestricted net position, which may be used to meet the government’s ongoing obligations to citizens and creditors.
- The City of Enumclaw’s total net position increased by \$1,035,773 in part due to improvements in the local, state and national economies.
- In 2016 the City received over 4.6MM in Drinking Water State Revolving Fund loans for the Water Reservoir and Water improvement projects. In addition, the Enumclaw Transportation Benefit District, which is a component unit of the City, issued 2.75MM in GO Bonds for pavement preservation projects.
- At the close of the current fiscal year, the City of Enumclaw’s governmental funds reported combined fund balances of \$10,003,531, an increase of \$4,011,216 in comparison with the prior year. Approximately 21% of this amount (2,017,318) is available for spending at the government discretion.
- At the end of the current fiscal year, unrestricted fund balance (the total of the committed, assigned, and unassigned components of fund balance) for the general fund was \$2,165,873, or approximately 53% of total general fund expenditures.
- The City of Enumclaw’s total outstanding debt increased by \$5.8MM during the current fiscal due to the issuance of the TBD GO Bond, a LOCAL loan issued for major equipment, and the Drinking Water State Revolving Fund loans.

Overview of the Financial Statements: The discussion and analysis provided here serves as an introduction to the City of Enumclaw’s basic financial statements. The City of Enumclaw’s basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) the notes to the financial statements. This report also includes supplemental information intended to furnish additional detail to support the basic financial statements themselves.

Government-wide Financial Statements. The government-wide financial statements are designed to provide readers with a broad overview of the City of Enumclaw’s financial condition in a manner similar to private sector business.

The **Statement of Net Position** presents financial information on all of the City of Enumclaw’s assets, liabilities, and deferred inflows/outflows of resources, with the difference reported as net position. Over time, increases

or decreases in net position may serve as a useful indicator of whether the financial position of the City of Enumclaw is improving or deteriorating.

The **Statement of Activities** presents information showing how the City of Enumclaw's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported for some items that will only result in cash flows in future fiscal periods.

Both of the government-wide financial statements distinguish functions of the City of Enumclaw that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City of Enumclaw include General Government, Public Safety, Transportation, Economic Environment, and Culture and Recreation. The business-type activities of the City of Enumclaw include Water, Wastewater, Natural Gas, Solid Waste, and the Exposition Center.

The government-wide financial statements include not only the City of Enumclaw itself, but also a legally separate Transportation Benefit District (TBD) for which the City of Enumclaw is financially accountable. The TBD, although legally separate, functions for all practical purposes as a department of the City, and therefore has been included as an integral part of the primary government.

Fund Financial Statements A Fund is a grouping of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The City of Enumclaw, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Enumclaw can be divided into three categories; governmental funds, proprietary funds, and fiduciary funds.

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

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

The City of Enumclaw maintains eighteen individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, street fund, and TBD fund, which are considered major funds. Data from the remaining governmental funds are combined into a single aggregated presentation.

The City of Enumclaw adopts an annual appropriated budget for all of its funds. A budgetary comparison statement has been provided for the general, street, and TBD funds (major funds) to demonstrate compliance with this budget.

Proprietary Funds. The City of Enumclaw maintains nine different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City of Enumclaw uses enterprise funds to account for its Water, Wastewater, Natural Gas, Solid Waste, Revenue Bonds and Exposition Center operations. Internal Service funds are an accounting device used to accumulate and allocate costs internally among the cities various functions. The City of Enumclaw uses internal service funds to account for the management of its vehicle fleet, data processing, and risk management. Because these services predominately benefit governmental rather than business-type functions, they have been included within the governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for each of the enterprise funds, all of which are considered to be major funds of the City. Conversely, the three internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. The revenue bond fund is combined with the Water and Wastewater Funds for financial presentation.

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

The city maintains two types of fiduciary funds. The private purpose trust fund is used to report resources held in trust for the maintenance of the historical library collection. The agency fund reports deposits held by the City of Enumclaw in a custodial capacity for individuals and private organizations.

Notes to the Financial Statements. The notes provide additional information essential that is necessary to acquire a full understanding of the government-wide and fund financial statements. The notes to the financial statements begin immediately following the basic financial statements.

Government-wide Overall Financial Analysis

As noted earlier, net position over time, may serve as a useful indicator of a government's financial position. In the case of the City of Enumclaw, assets and deferred outflows of resources exceeded liabilities by \$103,765,928 at the close of the most recent fiscal year.

City of Enumclaw's Net Position

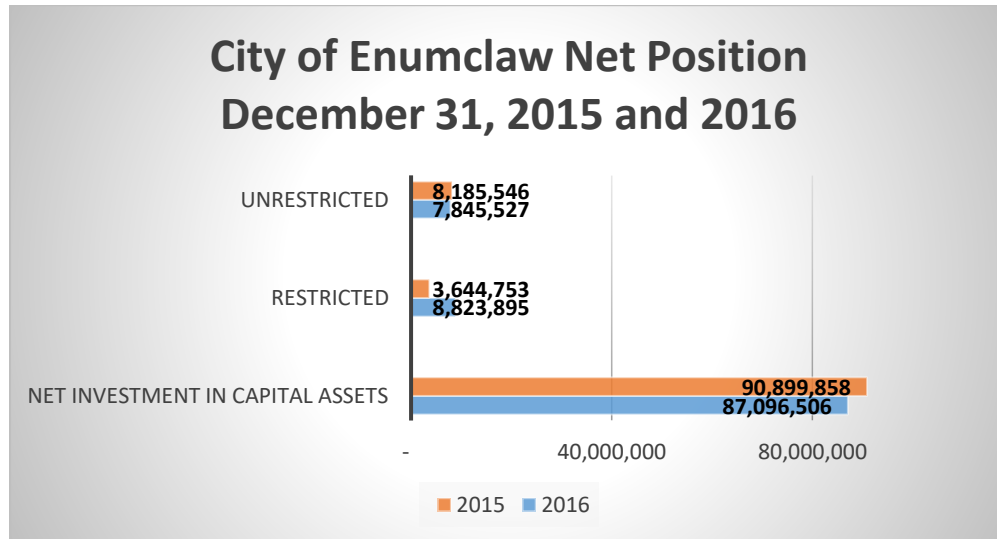
	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Current & other assets	\$ 15,487,578	\$ 12,225,621	\$ 9,496,469	\$ 7,982,358	\$ 24,984,047	\$ 20,207,979
Capital Assets	42,290,198	43,319,511	72,046,845	68,919,144	114,337,043	112,238,655
Total assets	57,777,776	55,547,147	81,543,314	76,903,517	139,321,090	132,450,664
Total deferred outflows of resources	685,963	465,560	318,390	253,961	1,004,353	719,521
Current liabilities outstanding	1,242,754	1,291,965	4,705,578	4,362,149	5,948,332	5,654,114
Other Liabilities	6,582,518	3,258,157	23,403,245	20,187,344	29,985,763	23,445,501
Total liabilities	7,825,272	4,550,122	28,108,823	24,549,493	35,934,095	29,099,615
Total deferred inflows of resources	574,845	1,097,048	50,575	239,277	625,420	1,336,325
Current liabilities						
Net investment in capital assets	39,194,519	43,131,996	47,901,987	47,767,862	87,096,506	90,899,858
Restricted	7,653,193	2,472,280	1,170,702	1,172,473	8,823,895	3,644,753
Unrestricted	3,215,910	4,759,187	4,629,617	3,426,359	7,845,527	8,185,546
Total net position	\$ 50,063,622	\$ 50,363,463	\$ 53,702,306	\$ 52,366,694	\$ 103,765,928	\$ 102,730,157

By far, the largest portion of the City of Enumclaw's net position (84%) reflects its investment in capital assets (e.g., land, buildings, improvements and machinery & equipment), less any related outstanding debt that was used to acquire those assets. The City uses the capital assets to provide a variety of services to its citizens. Accordingly, these assets are not available for future spending. Although the City's investments in capital assets is reported net of related debt, it should be noted that the resources used to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City of Enumclaw's net position (7%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$9,665,467 is unrestricted and may be used to meet the government's obligations to its citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in almost all reported categories of net position, both for the government as a whole, as well as for its separate governmental and business type activities. The one exception was the solid waste fund due to the implementation and booking of GASB 68 pension liabilities. The City will review the financial health of the solid waste fund during the next budget cycle.

City of Enumclaw's overall net position increased by \$1,035,773 from the prior fiscal year. The increase is discussed in the following sections for governmental activities and business-type activities.

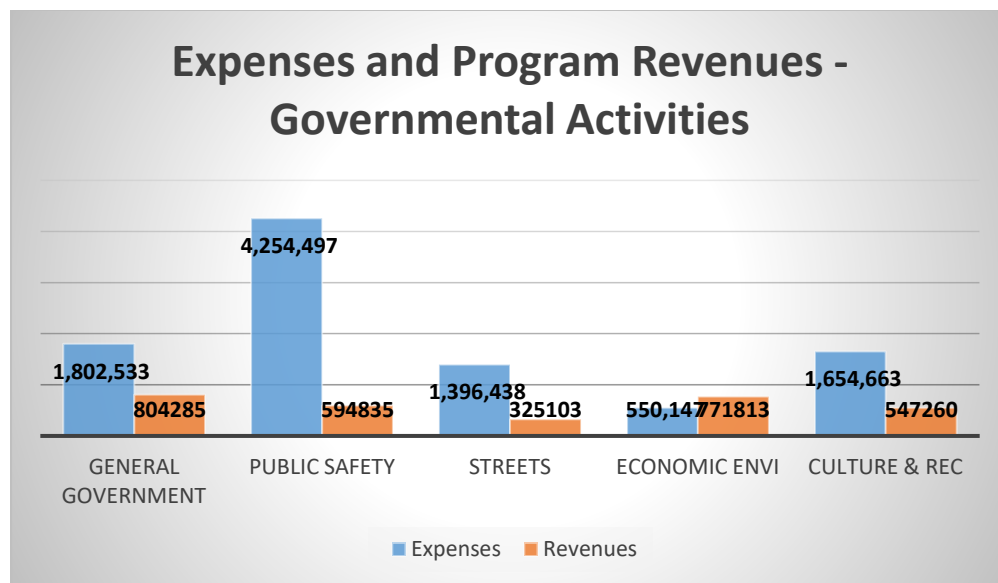


Governmental Activities.

During the current fiscal year, net position for governmental activities decreased \$299,841 from the prior fiscal year for an ending balance of \$50,063,622. Significant impacts to governmental activities have been the implementation of GASB 68 for PERS, PSERS, and LEOFF employees; as well as, the issuance of a \$2.75MM LTGO bond on behalf of the Transportation Benefit District. Since the TBD is a new district, they did not have the credit to pass the bond by itself, so the City was advised to use the credit of the City to issue the bond. An interlocal agreement was signed to protect the City from default, and to ensure payment of the bond via the TBD.

City of Enumclaw's Changes in Net Position

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Revenues:						
<i>Program revenues</i>						
Charges for services	\$ 2,449,881	\$ 2,402,578	\$ 14,089,857	\$ 14,052,593	\$ 16,539,738	\$ 16,455,171
Operating grants and contributions	517,542	452,477	27,621	214,366	545,163	666,843
Capital grants and contributions	75,872	2,017,247	0	0	75,872	2,017,247
<i>General revenues:</i>						
Property taxes	1,940,103	1,796,116			1,940,103	1,796,116
Other taxes	5,633,414	5,119,765			5,633,414	5,119,765
Grants and contributions not restricted to specific programs	0	0			0	0
Other	71,940	98,477	25,656	35,956	97,596	134,433
Total revenues	10,688,752	11,886,660	14,143,134	14,302,915	24,831,886	26,189,575
Expenses:						
General government	1,802,533	2,015,560			1,802,533	2,015,560
Public Safety	4,254,497	4,080,798			4,254,497	4,080,798
Transportation	1,396,438	1,174,729			1,396,438	1,174,729
Economic Environment	550,147	575,108			550,147	575,108
Culture and recreation	1,654,663	1,300,791			1,654,663	1,300,791
Interest on l-t debt	47,432	0			47,432	0
Water			2,197,653	2,153,824	2,197,653	2,153,824
Wastewater			3,280,620	3,017,964	3,280,620	3,017,964
Natural Gas			3,566,555	3,544,596	3,566,555	3,544,596
Solid Waste			2,299,071	1,992,504	2,299,071	1,992,504
Expo Center			522,690	861,669	522,690	861,669
Total Expenses	9,705,710	9,146,986	11,866,589	11,570,557	21,572,299	20,717,543
Increase (decrease) in net position before transfers						
	983,042	2,739,674	2,276,545	2,732,358	3,259,587	5,472,032
Transfers	-194,413	-155,710	0	155,711	-194,413	1
Contributions & Misc	-999,310	-280,445	-45,321	239,743	-1,044,631	-40,702
Increase (decrease) in net position						
	-210,681	2,303,519	2,231,224	3,127,812	2,020,543	5,431,331
Net position-beginning	50,363,463	48,059,941	52,366,694	49,210,234	102,730,157	97,270,175
Prior period adjustment	-89,161		-895,610	28,649	-984,771	28,649
Net position-ending	\$ 50,063,621	\$ 50,363,460	\$ 53,702,308	\$ 52,366,695	\$ 103,765,929	\$ 102,730,155



Business-type Activities

Net position increased by \$1,335,613 million in business-type funds mainly due to major capital projects and the City's conservative approach to revenue forecasting and spending. The City leverages low cost financing with operating revenues to achieve maximum use of capital dollars. Major projects in the Water Fund will decrease by 2017, while major projects in the Wastewater Fund funded by a Revenue Bond will begin in 2017.

Charges for services revenues increased \$37 thousand in the utility funds due to rate increases in water, wastewater and solid waste. Natural gas is the largest City program with 31% of business-type expense and 17% of all City expenses. The price of natural gas supply fluctuates greatly based on the regional and global economies, and this represents the majority of expenditures in this fund.

Financial Analysis of the Government's Funds

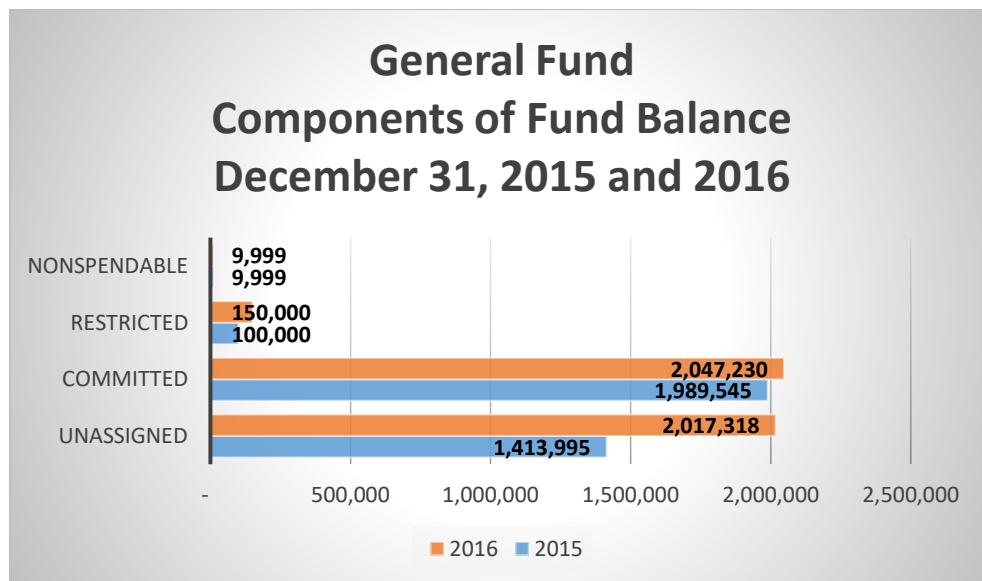
As noted earlier, the City of Enumclaw uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

Governmental Funds

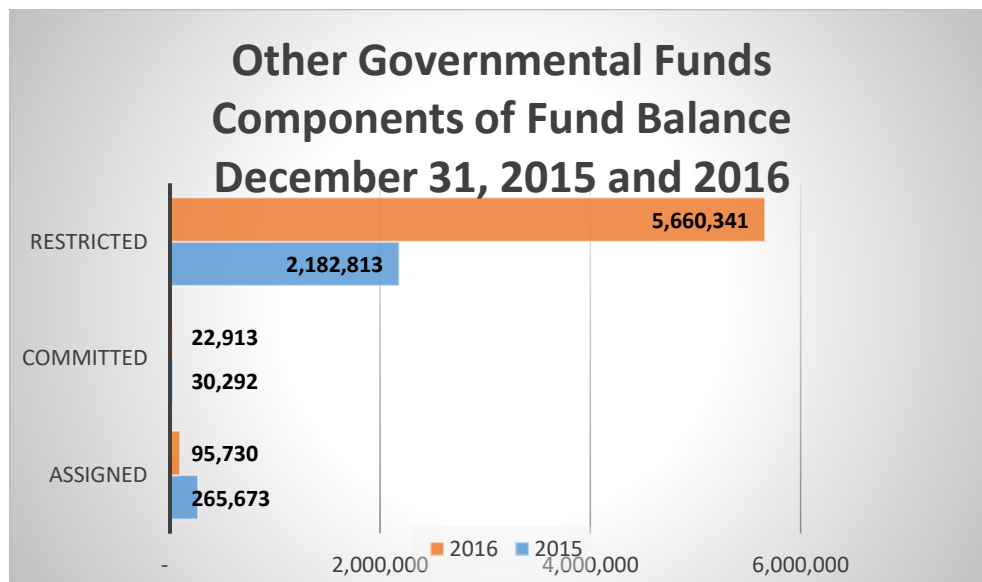
The focus of the City of Enumclaw's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City of Enumclaw's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for discretionary use as they represent the portion of fund balance which has not yet been limited to use for a particular purpose by either an external party, the City itself, or a group or individual

that has been delegated authority to assign resources for use for particular purposes by the City of Enumclaw's Council.

At December 31, 2016 the City's governmental funds reported combined fund balances of \$10,003,531 an increase of \$4,011,216 in comparison with the prior year. Approximately 21% of this amount (\$2,017,318) constitutes unassigned fund balance, which is available for spending at the city's discretion. The remainder of the fund balance is either nonspendable, restricted, committed or assigned to indicate that it is 1) not in spendable form (\$9,999), 2) restricted for particular purposes (\$5,810,341), 3) committed for particular purposes (\$2,070,143) or 4) assigned for particular purposes (\$95,730).



The general fund is the chief operating fund of the City of Enumclaw. At the end of the current fiscal year, unassigned fund balance of the general fund was \$2,017,318 while total fund balance increased to \$4,224,547. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total general fund expenditures. Unassigned fund balance represents approximately 27% of total general fund expenditures, while total fund balance represents approximately 55% of that same amount.



Taxes are the most significant source of governmental revenues, representing 68% of total governmental operating revenues and 73% of general fund revenues. Taxes support services, such as police and parks, which are basic to the City's mission, yet do not themselves generate substantial revenues. The major tax categories are retail sales and use, property and utility taxes. Property taxes are limited in growth to 1% per year without a vote of the citizens. Sales and utility taxes can fluctuate greatly with the economy, as the city experienced with the most recent recession. Recessions can also affect property taxes, as values decrease and homes become foreclosed and vacant. Post-recession the City has experienced increases in all tax categories.

The only significant tax revenue not designated for the general fund is real estate excise tax (REET). This tax is shared by two special revenue funds and used primarily for construction and significant maintenance projects. Revenues in 2016 for these two funds totaled \$436 thousand, an increase of \$50 thousand from 2015. In recent years REET dollars have been used for grant matching funds and small capital projects.

Expenditures

Public safety (police) is the largest expense to the general fund at 56% of general fund expenditures. General government services are typically overhead in nature, providing management, accounting, legal, personnel and technical services required by operating programs. They comprised 23% of total general fund expenditures. Cultural services include the parks and recreation programs, the pool, and cemetery. They represent another 11% of expenditures. Capital expenditures comprised 1% of governmental expenditures in 2016, which is a number that fluctuates annually based on need.

The Street Fund was reported as a major fund due to the expenditures incurred for annual pavement maintenance and capital projects such as 410 Channelization project. Capital projects in the Street Fund are paid for through a combination of funding sources, such as grants, impact fees, and/or REET taxes. Stormwater is also managed through the Street Fund and is primarily funded through General Fund transfers. The City is working towards creating a Stormwater Utility Fund to relieve the General Fund from this burden.

Proprietary Funds

The City of Enumclaw's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. Unrestricted net position of the proprietary funds at year-end amounted to \$4.6 million. Total growth in net position for these funds was \$1.3 million.

Major projects in the utility funds were the Water Reservoir and Water Improvement projects, both funded by low-interest Drinking Water State Revolving Fund Loans. These loans are backed by federal dollars, and are therefore reported on the City's Schedule of Federal Financial Assistance and subject to Single Audit. Total loan balance as of 12/31/16 was \$5,226,773 with \$2,329,002 available for future drawdown. The City anticipates to use the remaining portion in 2017.

In 2016 the City also entered into a Washington State LOCAL loan program for \$759,357 to purchase major equipment in the Street, Wastewater, and Solid Waste Funds. The loan is funded through a WA State Bond issue, and was issued at a premium. The premium was passed on to local entities, so the City's repayment amount is \$652,072 (\$214,679 General Gov't and \$437,423 Proprietary).

General Fund Budgetary Highlights

For 2016, the final general fund budget was \$12.7 million and actual operations were \$8.5 million. Amendments to the City budget are made for the following purposes;

- Supplemental appropriations approved after the beginning of the year to reflect actual beginning account balances and to correct the estimated amounts in the budget adopted December 2016.
- Increases and decreases in appropriations to recognize actual program costs.
- New appropriations to acknowledge unanticipated revenues and corresponding expenditures.

Actual operating revenues were \$490 thousand over the final budget. Actual operating expenditures were \$338 thousand under final budget amounts.

Final budget compared to actual results. The most significant differences between estimated revenues and actual revenues were as follows:

Revenue Source	Estimated Revenues	Actual Revenues	Differences
Property Tax	1,822,628	1,834,202	11,574
Sales & Use Tax	2,371,693	2,529,989	158,296
Licenses & Permits	346,000	479,261	133,261
Charges for services	1,441,587	1,602,860	161,273

Capital Asset and Debt Administration**Capital Assets**

At the end of 2016, the City had invested \$114 million (net of depreciation) in a wide range of capital assets throughout governmental and business-type activities. More detailed information about the City's capital assets is presented in Note 4-D to the financial statements.

<i>(in thousands)</i>	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2014
Land	\$ 8,226	\$ 8,210	\$ 3,708	\$ 3,708	\$ 11,934	\$ 11,918
Buildings	1,854	1,966	14,243	14,921	16,097	16,887
Improvements	29,789	29,341	46,769	47,494	76,558	76,835
Machinery	2,117	1,758	1,462	1,534	3,579	3,292
Construction in Progress	304	2,044	5,865	1,263	6,170	3,307
Total	\$ 42,290	\$ 43,319	\$ 72,047	\$ 68,920	\$ 114,337	\$ 112,239

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

- Water Reservoir Replacement Project
- Water Improvement Projects
- City-Wide Pavement Preservation Project (TBD)
- State Route 410 Channelization Project

Long-term Liabilities

At year-end, City outstanding liabilities, including compensated absences, had increased 3%. More detailed information about the City's long-term liabilities is presented in Notes 4-H of the financial statements notes.

The City of Enumclaw's current revenue bond rating from Standard and Poor's is 'AA-' for bonds issued prior to 2016.

<i>(in thousands)</i>	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2013
General Obligation Bonds	\$ 2,846	\$ 157	\$ -	\$ -	\$ 2,846	\$ 157
Special Assessments	-	-	-	-	-	-
Capital Leases	-	-	-	-	-	-
Revenue Bonds	-	-	5,285	6,220	5,285	6,220
Governmental Loans	215	31	18,701	14,857	18,916	14,888
Compensated Absences	832	809	310	274	1,142	1,083
Total	\$ 3,892	\$ 997	\$ 24,296	\$ 21,351	\$ 28,188	\$ 22,348

State law limits the amount of general obligation debt the City can issue to a percentage of the total assessed value of the taxable property of the city. The limits are:

- 1.50% non voted
- 2.50% voted
- 7.50% voted if excess over 2.50% is for utilities, parks or open space development

Calculation of Legally Available Debt

	Total assessed value	\$	1,190,797,268	
Allowable general purpose indebtedness (legal limit 2.5% of taxable property value)				29,769,932
Unvoted indebtedness incurred (less assets available)			2,815,499	
Voted indebtedness incurred (less assets available)			-	
Total debt incurred				<u>2,815,499</u>
Legally available debt capacity	-	General Purposes		26,954,433
		- Utility Purposes		29,769,932
		- Open Space & Parks Purposes		<u>29,769,932</u>
Total legally available debt capacity				<u>\$ 86,494,296</u>

Economic Factors

The most recent statistics on the unemployment rate of Enumclaw WA is 4.30%, with job growth at 1.69%. The population is approximately 11,609, with a change of roughly 3.3% since the year 2000. Estimated median household income is \$56,764.

In 2016, the City took the 1% property tax increase as allowed by RCW. In 2016 the Water Fund received a rate increase of 1.2% based on CPI-U, Wastewater rates increased 3% by council action. Natural Gas rates remained the same for 2016 and Solid Waste increased 2% to maintain pace with increased passed on by King County.

Contacting the City's Financial Management

This financial report is designed to provide those with an interest in the City of Enumclaw's financial condition with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. Questions concerning any of the information contained herein or requests for additional information should be addressed to the Finance Director, City of Enumclaw, 1339 Griffin Avenue, Enumclaw, WA 98022, or visit the City's website www.cityofenumclaw.net

CITY OF ENUMCLAW
Statement of Net Position
December 31, 2016

	Primary Government		
	Governmental	Business-type	
	Activities	Activities	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 1,652,732	\$ 475,086	\$ 2,127,818
Investments	11,926,876	3,568,446	15,495,322
Receivable (net allowance for uncollectible)	531,416	1,792,383	2,323,799
Due from Other Gov't Units	284,807	628,345	913,152
Due from Other Funds	496,448		496,448
Inventories	-	297,376	297,376
Other Receivables	161,238	-	161,239
Total current assets	<u>15,053,517</u>	<u>6,761,636</u>	<u>21,815,153</u>
Noncurrent assets:			
Restricted cash	-	321,323	321,323
Investments	-	2,413,510	2,413,510
Net Pension Asset	434,061		434,061
Capital assets (net of accumulated depreciation):			
Land	8,226,276	3,707,569	11,933,845
Buildings	1,853,685	14,242,999	16,096,684
Improvements	29,789,083	46,768,584	76,557,667
Machinery and equipment	2,116,933	1,462,305	3,579,238
Construction work in progress	304,221	5,865,388	6,169,609
Total noncurrent assets	<u>42,724,259</u>	<u>74,781,678</u>	<u>117,505,937</u>
Total assets	<u>57,777,776</u>	<u>81,543,314</u>	<u>139,321,090</u>
Deferred Outflows of Resources			
Deferred outflows of pensions	685,963	318,390	1,004,353
Total Assets and Deferred Outflows of Resources	<u>58,463,739</u>	<u>81,861,704</u>	<u>140,325,443</u>
LIABILITIES			
Current liabilities:			
Accounts payable	192,033	1,223,717	1,415,750
Due To Other Funds	121,448	375,000	496,448
Other liabilities	413,310	178,198	591,508
Current portion:			
Bonds payable	210,214	975,000	1,185,214
Special assessments w/ gov't commitments	-	-	-
Long-term liabilities	15,202	1,851,521	1,866,723
Compensated absences	290,547	102,142	392,689
Total current liabilities	<u>1,242,754</u>	<u>4,705,578</u>	<u>5,948,332</u>
Noncurrent liabilities:			
Bonds payable (net of amortized discount)	2,635,469	4,396,378	7,031,847
Special assessments debt	-	-	-
Other L-T liabilities (OPEB, Loans)	820,109	16,921,959	17,742,068
Net Pension Liability	2,585,407	1,877,527	4,462,934
Compensated absences	541,534	207,381	748,915
Total noncurrent liabilities	<u>6,582,518</u>	<u>23,403,245</u>	<u>29,985,763</u>
Total liabilities	<u>7,825,272</u>	<u>28,108,822</u>	<u>35,934,095</u>
Deferred Inflows of Resources			
Deferred inflows of taxes	505,234	-	505,234
Deferred inflows of pensions	69,611	50,575	120,186
Total Deferred Inflows of Resources	<u>574,845</u>	<u>50,575</u>	<u>625,420</u>
Total Liabilities and Deferred Inflows of Resource:	<u>8,400,117</u>	<u>28,159,397</u>	<u>36,559,515</u>
NET POSITION			
Net Investment in Capital Assets	39,194,519	47,901,987	87,096,506
Restricted			
Capital projects	4,886,011	57,250	4,943,261
Civic and recreation	48,992	-	48,992
Debt service	86,719	1,113,452	1,200,171
Public safety	230,996	-	230,996
Permanent	580,537	-	580,537
Unrestricted	5,035,849	4,629,618	9,665,467
Total net position	<u>\$ 50,063,622</u>	<u>\$ 53,702,307</u>	<u>\$ 103,765,929</u>

The notes to the financial statements are an integral part of this financial statement

CITY OF ENUMCLAW
Statement of Activities
For the Year Ended December 31, 2016

Functions/Program	Program Revenues				Net (Expense) Revenue Changes in Net Assets		
	Expenses	Charges for Services	Operating		Primary Government		Total
			Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	
Primary Government:							
Governmental activities:							
General government	\$ 1,802,533	\$ 803,635	\$ 650	\$ -	\$ (998,248)	\$ -	\$ (998,248)
Public safety	4,254,497	410,606	173,300	10,929	(3,659,662)	-	(3,659,662)
Transportation	1,396,438	8,269	251,891	64,943	(1,071,335)	-	(1,071,335)
Economic environment	550,147	766,123	5,690	-	221,666	-	221,666
Culture and recreation	1,654,663	461,248	86,012	-	(1,107,403)	-	(1,107,403)
Interest & other debt service costs	47,432	-	-	-	(47,432)	-	(47,432)
Total governmental activities	9,705,710	2,449,881	517,542	75,872	(6,662,414)	-	(6,662,414)
Business-type activities:							
Water	2,197,653	3,365,733	-	-	-	1,168,080	1,168,080
Wastewater	3,280,620	4,644,591	-	-	-	1,363,971	1,363,971
Natural Gas	3,566,555	3,974,288	-	-	-	407,733	407,733
Solid Waste	2,299,071	2,096,873	27,621	-	-	(174,577)	(174,577)
Expo Center	522,690	8,372	-	-	-	(514,318)	(514,318)
Total business-type activities	11,866,590	14,089,857	27,621	-	-	2,250,888	2,250,888
Total primary government	\$ 21,572,300	\$ 16,539,738	\$ 545,163	\$ 75,872	\$ (6,662,414)	\$ 2,250,888	\$ (4,411,525)
General Revenues:							
Taxes:							
Property Taxes					1,940,103	-	1,940,103
Retail Sales and Use Taxes					3,019,041	-	3,019,041
Utility Taxes					1,939,552	-	1,939,552
Other Taxes					674,821	-	674,821
Unrestricted investment earnings					71,940	25,656	97,596
Special Item, Pension, Misc					(999,310)	(45,321)	(1,044,631)
Transfers					(194,413)	-	(194,413)
Total General Revenues, Special Items and Transfers					6,451,734	(19,665)	6,432,069
Change in Net Position					(210,680)	2,231,223	2,020,543
Net Position - Beginning					50,363,463	52,366,694	102,730,157
Prior Period Adjustments					(89,161)	(895,610)	(984,771)
Net Position - Ending					\$ 50,063,622	\$ 53,702,307	\$ 103,765,929

The notes to the financial statements are an integral part of this statement

CITY OF ENUMCLAW
Balance Sheet
Governmental Funds
December 31, 2016

	General	Street	Transportation Benefit District Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 565,582	\$ 15,355	\$ 373,765	\$ 313,255	\$ 1,267,957
Investments at fair value	3,761,116	115,330	2,807,414	2,352,911	9,036,771
Receivable (net allowance)	88,433	6,269	-	433,200	527,902
Intergovernmental receivable	284,807	-	-	-	284,807
Interfund Loans Receivable	-	-	-	10,000	10,000
Prepaid Accounts	9,999	-	-	-	9,999
Total assets	\$ 4,709,937	\$ 136,954	\$ 3,181,179	\$ 3,109,366	\$ 11,137,436
LIABILITIES					
Accounts payable	77,709	16,263	36,787	6,231	136,990
Interfund Loan Payable	-	-	-	121,448	121,448
Due to other retirement systems	-	-	-	-	-
Other liabilities	323,645	24,961	431	21,193	370,230
Total liabilities	401,354	41,224	37,218	148,872	628,668
DEFERRED INFLOWS OF RESOURCES					
Unavailable Revenue - Property Taxes	84,034	-	-	-	84,034
Unavailable Revenue - Special Assessments	-	-	-	421,200	421,200
Total Deferred Inflows of Resources	84,034	-	-	421,200	505,234
FUND BALANCE					
Nonspendable					9,999
Prepaid Expenses	9,999	-	-	-	-
Restricted					
Law Enforcement	150,000	-	-	80,996	230,996
Tourism	-	-	-	26,079	26,079
Capital Improvements	-	-	3,143,961	1,742,049	4,886,010
Cemetery	-	-	-	455,399	455,399
Library	-	-	-	125,138	125,138
LID Debt Service	-	-	-	86,719	86,719
Committed					-
Economic Stabilization	323,021	-	-	-	323,021
Property Management	1,724,209	-	-	-	1,724,209
Parks & Recreation	-	-	-	22,913	22,913
Assigned					-
Streets	-	95,730	-	-	95,730
Unassigned	2,017,318	-	-	-	2,017,318
Total fund balances	4,224,547	95,730	3,143,961	2,539,293	10,003,531
Total liabilities, deferred inflows & fund balances	\$ 4,709,935	\$ 136,954	\$ 3,181,179	\$ 3,109,365	\$ 11,137,434

The notes to the financial statements are an integral part of this statement

CITY OF ENUMCLAW
Reconciliation of the Balance Sheet
of Governmental Funds
to the Statement of Net Position
December 31, 2016

Amounts reported for Governmental Activities in the Statement of Net Position are different because:

Total Fund Balances - Governmental Funds	\$ 10,003,531
Capital assets not reported in the Governmental Funds	40,363,230
Assets and liabilities of the Internal Service Funds not reported in the Governmental Funds	4,966,205
Long term assets not available to pay current period expenditures and therefore are deferred in the Governmental Funds	
Local court revenue receivable	151,244
Long term debt not reported in the Governmental Funds	
Bonds and Notes	(3,095,683)
Compensated Absences	(759,896)
Net OPEB Liability	(585,310)
Net Pension Liability and Asset, including deferred items	(979,699)
	<u>(5,420,588)</u>
Net Position of Government Activities	<u>\$ 50,063,622</u>

The notes to the financial statements are an integral part of this statement

CITY OF ENUMCLAW
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2016

	General	Street	Transportation Benefit District Fund	Other Governmental Funds	Total Governmental Funds
REVENUES					
Taxes	\$ 6,636,101	\$ -	\$ 404,138	\$ 449,246	\$ 7,489,485
Licenses and permits	479,261	4,080	-	-	483,341
Intergovernmental revenue	218,231	316,834	-	55,000	590,065
Charges and services	1,602,860	16,354	-	436,206	2,055,420
Fines and forfeits	122,673	-	-	1,688	124,361
Miscellaneous revenues	139,676	1,747	1,156	147,963	290,541
Total revenues	9,198,802	339,015	405,294	1,090,103	11,033,213
EXPENDITURES					
Current:					
General government services	1,748,155	-	-	10,012	1,758,167
Public safety	4,245,348	-	-	16,282	4,261,630
Economic environment	564,322	-	-	-	564,322
Transportation	-	936,040	5,383	-	941,423
Social Services	325,124	-	-	-	325,124
Cultural and recreation	804,926	-	-	487,360	1,292,286
Debt service:	-	-	-	-	-
Redemption of general long-term debt	-	30,781	-	104,458	135,239
Interest and other debt service cost	-	8,021	21,000	13,589	42,610
Capital outlay	10,674	427,301	125,397	69,038	632,410
Total expenditures	7,698,549	1,402,143	151,781	700,739	9,953,211
Excess (deficiency) of revenues Over (under) expenditures	1,500,253	(1,063,128)	253,513	389,364	1,080,002
OTHER FINANCING SOURCES (USES)					
Other Finance Sources	-	225,000	2,745,000	15,000	2,985,000
Transfers in	0	901,486	-	498,883	1,400,369
Transfers out	(789,246)	(233,300)	-	(431,609)	(1,454,155)
Total other financing sources and (uses)	(789,246)	893,186	2,745,000	82,274	2,931,214
Net change in fund balances	711,007	(169,942)	2,998,513	471,638	4,011,216
Fund balances - beginning	3,513,540	265,672	145,448	2,067,655	5,992,315
Prior Period	-	-	-	-	-
Fund balances - ending	\$ 4,224,547	\$ 95,730	\$ 3,143,961	\$ 2,539,293	\$ 10,003,531

The notes to the financial statements are an integral part of this statement

CITY OF ENUMCLAW
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended December 31, 2016

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

Net Change in Fund Balances - total Governmental Funds	\$ 4,011,216
Repayment of bond principal is reported as an expenditure in Governmental Funds and as a reduction in debt in the Statement of Net Position.	137,523
Long-term debt proceeds are not included in the Statement of Activities	(2,985,000)
Increase/Decrease in Compensated Absences and Receivables not listed in Governmental Funds	(11,648)
Purchase of capital assets are treated as an expenditure in Governmental Funds	632,409
Depreciation of capital assets is not reported in Governmental Funds	<u>(878,343)</u>
	(245,934)
Donated capital assets are not included in the Fund Statements	460,000
Deferred property taxes are not reported in Governmental Funds	84,034
Internal Service Fund Change in Net Position is not included in the Governmental Funds	3,147
Prior year construction costs reported as work in progress written off in the current year and corrections to capital assets	(1,469,604)
Change in Net Pension Obligation for LEOFF	(286,946)
Change in Net Pension Liability, Deferred Inflows, Deferred Outflows, and Net Pension Assets not treated as an expenditure in the Governmental Funds	92,532
Change in Net Position of Governmental Activities	<u>\$ (210,680)</u>

The notes to these financial statements are an integral part of this statement

CITY OF ENUMCLAW
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual GAAP Basis
General Fund
For the Year Ended December 31, 2016

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Budget Basis</u>	<u>Budget Basis To GAAP Basis Differences</u>	<u>Actual GAAP Basis</u>
	<u>Original</u>	<u>Final</u>	<u>Basis</u>			
REVENUES						
Taxes:						
Property	\$ 1,822,628	#####	#####	\$ -		\$ 1,834,202
Retail sales and use	2,371,693	2,371,693	2,529,989			2,529,989
Interfund utility	999,857	999,857	986,440			986,440
Business & Occupation	1,225,080	1,245,080	1,285,470			1,285,470
Licenses and permits	346,000	346,000	479,261			479,261
Intergovernmental revenue	223,785	203,785	218,231	-		218,231
Charges for services	1,511,587	1,441,587	1,602,860	-		1,602,860
Fines and forfeits	141,000	141,000	122,673	-		122,673
Miscellaneous revenues	120,027	136,727	138,346	1,330		139,676
Project Revenue	40,000	-	-	-		-
Total revenues	<u>8,801,657</u>	<u>8,708,357</u>	<u>9,197,472</u>	<u>1,330</u>		<u>9,198,802</u>
EXPENDITURES						
General Government	1,874,386	1,897,571	1,748,155			1,748,155
Public Safety	4,260,119	4,260,119	4,245,348			4,245,348
Economic Environment	598,787	609,586	564,322	-		564,322
Social Services	323,022	323,022	325,124	-		325,124
Cultural & Recreation	875,871	866,676	804,926	-		804,926
Capital Outlay	70,000	80,000	10,674			10,674
Debt Service	-	-	-	-		-
Principal	-	-	-	-		-
Interest	-	-	-	-		-
Total expenditures	<u>8,002,185</u>	<u>8,036,974</u>	<u>7,698,549</u>	<u>-</u>		<u>7,698,549</u>
Excess of revenues over (under) expenditures	<u>799,472</u>	<u>671,383</u>	<u>1,498,923</u>	<u>1,330</u>		<u>1,500,253</u>
OTHER FINANCING SOURCES (USES)						
Other financing sources	-	-	-			-
Transfer in	20,000	-	-	-		-
Transfers out	(730,871)	(789,247)	(789,246)	-		(789,246)
Total other financing sources (uses)	<u>(710,871)</u>	<u>(789,247)</u>	<u>(789,246)</u>	<u>-</u>		<u>(789,246)</u>
Net change in fund balances	88,601	(117,864)	709,677	1,330		711,007
Fund balance - beginning	<u>3,083,423</u>	<u>3,169,035</u>	<u>3,191,846</u>	<u>321,694</u>		<u>3,513,540</u>
Prior Period						
Fund balance - ending	<u>\$ 3,172,024</u>	<u>#####</u>	<u>#####</u>	<u>\$ 323,024</u>		<u>\$ 4,224,547</u>

Explanation of differences in amounts reported on Budget Basis and GAAP Basis: The City budgets certain funds as Special Revenue Funds for budgetary control purposes which are included in the General Fund for GAAP reporting purposes as follows:

	Net Changes in Fund	
	Contingency	Balance Budget Basis
Special Revenue Funds - Budget Basis	Fund	to GAAP Basis
Revenues	\$ 1,330	\$ 1,330
Expenditures	-	-
Other Financing Sources (Uses), Net	-	-
Net Change in Fund Balance	1,330	1,330
Fund Balance - Beginning of Year	321,694	321,694
Fund Balance - End of Year	<u>\$ 323,024</u>	<u>\$ 323,024</u>

The notes to these financial statements are an integral part of this statement

CITY OF ENUMCLAW
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual GAAP Basis
Street Fund
For the Year Ended December 31, 2016

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget -</u>
			<u>GAAP Basis</u>	<u>Positive</u>
				<u>(Negative)</u>
REVENUES				
Intergovernmental revenue	297,602	383,324	316,834	(66,490)
Charges for services	13,000	13,000	16,354	3,354
Miscellaneous revenues	4,238	4,238	5,827	1,589
Total revenues	<u>314,840</u>	<u>400,562</u>	<u>339,015</u>	<u>(61,547)</u>
EXPENDITURES				
Transportation	796,073	907,226	936,040	(28,814)
Capital Outlay	45,000	565,355	427,301	138,054
Debt service:				
Redemption of general long-term debt	30,782	30,782	30,781	1
Interest and other debt service cost	308	8,022	8,021	1
Total expenditures	<u>872,162</u>	<u>1,511,385</u>	<u>1,402,143</u>	<u>109,242</u>
Excess of revenues over(under) expenditures	<u>(557,322)</u>	<u>(1,110,822)</u>	<u>(1,063,128)</u>	<u>47,694</u>
OTHER FINANCING SOURCES (USES)				
Bond Proceeds	-	250,000	225,000	(25,000)
Transfer in	558,100	916,486	901,486	(15,000)
Transfers out	-	(233,300)	(233,300)	-
Total other financing sources (uses)	<u>558,100</u>	<u>933,186</u>	<u>893,186</u>	<u>(40,000)</u>
Net change in fund balances	778	(177,636)	(169,942)	7,694
Fund balance - beginning	<u>59,420</u>	<u>265,675</u>	<u>265,672</u>	<u>(3)</u>
Prior Period Adjustment			-	
Fund balance - ending	<u>\$ 60,198</u>	<u>\$ 88,038</u>	<u>\$ 95,730</u>	<u>\$ 7,692</u>

The notes to these financial statements are an integral part of this statement

CITY OF ENUMCLAW
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual GAAP Basis
Transportation Benefit District
For the Year Ended December 31, 2016

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget -</u>
			<u>GAAP Basis</u>	<u>Positive</u>
				<u>(Negative)</u>
REVENUES				
Taxes				
Transportation Benefit Fees	227,130	395,130	404,138	9,008
Intergovernmental revenues	-	452,680	-	(452,680)
Miscellaneous revenues	-	-	1,156	1,156
Total revenues	<u>227,130</u>	<u>847,810</u>	<u>405,294</u>	<u>(442,516)</u>
EXPENDITURES				
Transportation	14,000	14,000	5,383	8,617
Debt Service		21,053	21,000	
Capital Outlay	21,053	937,379	125,397	811,981
Total expenditures	<u>35,053</u>	<u>972,431</u>	<u>151,781</u>	<u>820,598</u>
Excess of revenues over(under) expenditures	<u>192,077</u>	<u>(124,621)</u>	<u>253,513</u>	<u>(1,263,114)</u>
OTHER FINANCING SOURCES (USES)				
Bond Proceeds	-	2,745,000	2,745,000	-
Transfer in	-	-	-	-
Transfers out	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>2,745,000</u>	<u>2,745,000</u>	<u>-</u>
Net change in fund balances	192,077	2,620,379	2,998,513	378,134
Fund balance - beginning	<u>109,037</u>	<u>149,992</u>	<u>145,448</u>	<u>(4,544)</u>
Prior Period Adjustment			-	
Fund balance - ending	<u>\$ 301,114</u>	<u>\$2,770,371</u>	<u>\$3,143,961</u>	<u>\$ 373,590</u>

The notes to these financial statements are an integral part of this statement

CITY OF ENUMCLAW
Statement of Net Position
Proprietary Funds, as of December 31, 2016

	Business-type Activities - Enterprise Funds						Governmental Activities - Internal Service Funds
	Water	Wastewater	Natural Gas	Solid Waste	Expo Center	Totals	
ASSETS							
Current assets:							
Cash and cash equivalents	\$ 202,604	\$ 43,171	\$ 188,883	\$ 19,808	\$ 20,620	\$ 475,086	\$ 384,775
Investments at fair value	1,521,788	324,268	1,418,733	148,779	154,878	3,568,446	2,890,105
Receivable (net allowance)	349,241	460,348	736,965	236,439	9,391	1,792,383	3,514
Interfund receivables	-	-	-	-	-	-	-
Due from other Government Units	628,345	-	-	-	-	628,345	-
Inventories	73,400	-	223,975	-	-	297,375	-
Total current assets	2,775,378	827,787	2,568,556	405,026	184,889	6,761,636	3,278,394
Noncurrent assets:							
Restricted cash	137,735	183,588	-	-	-	321,323	-
Restricted investments	1,034,549	1,378,961	-	-	-	2,413,510	-
Interfund loan receivables	-	-	-	-	-	-	486,448
Capital assets (net of accumulated depreciation)							
Land	58,855	2,035,866	2,475	375	1,610,000	3,707,571	375
Buildings	710,993	11,490,508	16,175	-	2,025,323	14,242,999	-
Improvements	22,511,879	19,241,078	4,033,367	2,097	980,162	46,768,583	302,573
Machinery and equipment	235,859	909,444	232,430	14	84,558	1,462,305	1,514,522
Construction in progress	5,224,426	17,666	623,296	-	-	5,865,388	109,498
Total noncurrent assets	29,914,296	35,257,111	4,907,743	2,486	4,700,043	74,781,679	2,413,416
Total assets	\$ 32,689,674	\$ 36,084,898	\$ 7,476,299	\$ 407,512	\$ 4,884,932	\$ 81,543,315	\$ 5,691,810
Deferred Outflows of Resources							
Deferred outflows of pensions	98,284	78,411	84,472	57,223	-	318,390	108,872
Total Assets and Deferred Outflows of Resol	32,787,958	36,163,309	7,560,771	464,735	4,884,932	81,861,705	5,800,682
LIABILITIES							
Current liabilities:							
Accounts payable	706,674	47,955	377,459	89,738	1,890	1,223,716	55,043
Other accrued liabilities	41,047	43,688	63,700	27,658	2,105	178,198	43,082
Interfund Loan Payable	90,000	285,000	-	-	-	375,000	-
Current bonds payable	697,004	277,996	-	-	-	975,000	-
Current other liabilities	436,423	1,452,944	35,086	29,210	-	1,953,663	23,821
Total current liabilities	1,971,148	2,107,583	476,245	146,606	3,995	4,705,577	121,946
Noncurrent liabilities:							
Bonds payable (net of amortized discount)	(15,106)	4,411,484	-	-	-	4,396,378	-
Long-term Compensated absences	42,612	55,485	71,236	38,048	-	207,381	48,364
Net Pension Liability	579,996	460,406	499,611	337,514	-	1,877,527	646,772
Other long-term liabilities	6,028,897	10,731,343	-	161,719	-	16,921,959	-
Total noncurrent liabilities	6,636,399	15,658,719	570,847	537,281	-	23,403,245	695,136
Total liabilities	8,607,547	17,766,302	1,047,092	683,887	3,995	28,108,822	817,082
Deferred Inflows of Resources							
Deferred inflows of pensions	15,627	12,406	13,458	9,084	-	50,575	17,394
Total Liabilities and Deferred Inflows of Resol	8,623,174	17,778,708	1,060,550	692,971	3,995	28,159,397	834,476
NET POSITION							
Net Investment in Capital Assets	21,615,782	16,848,123	4,907,743	(169,704)	4,700,043	47,901,987	1,926,968
Restricted for debt service	746,013	367,439	-	-	-	1,113,452	-
Restricted for construction	-	-	57,250	-	-	57,250	-
Unrestricted	1,802,989	1,169,039	1,535,228	(58,532)	180,894	4,629,618	3,039,238
Total net position	\$ 24,164,784	\$ 18,384,601	\$ 6,500,221	\$ (28,236)	\$ 4,880,937	\$ 53,702,307	\$ 4,966,206

The notes to these financial statements are an integral part of this statement

CITY OF ENUMCLAW
Statement of Revenues, Expenses and Changes in Net Position
Proprietary Funds
For the Year Ended December 31, 2016

	Business-type Activities Enterprise Funds						Governmental Activities Internal Service Funds
	Water	Wastewater	Natural Gas	Solid Waste	Expo Center	Totals	
Operating revenues:							
Customer sales and service fees	\$ 3,048,555	\$ 4,311,067	\$ 3,887,117	\$ 2,067,255	\$ -	\$ 13,313,994	\$ 1,983,678
Other charges for service	-	-	-	-	-	-	6,807
Other operating revenue	317,179	333,524	87,171	29,618	8,372	775,864	3,155
Total operating revenues	3,365,734	4,644,591	3,974,288	2,096,873	8,372	14,089,857	1,993,640
Operating expenses:							
General administration	472,645	648,962	591,943	305,295	62,651	2,081,495	105,121
General operations	790,092	864,756	672,201	1,649,301	-	3,976,350	1,371,485
Gas purchased for resale	-	-	1,764,162	-	-	1,764,162	-
Maintenance	-	167,974	-	-	-	167,974	-
Depreciation and amortization	539,857	1,153,137	164,024	699	460,039	2,317,756	291,253
Insurance and payment on claims	-	-	-	-	-	-	310,703
Taxes	395,059	445,792	374,225	343,777	-	1,558,853	-
Total operating expenses	2,197,653	3,280,620	3,566,555	2,299,072	522,690	11,866,590	2,078,562
Operating income (loss)	1,168,081	1,363,971	407,733	(202,199)	(514,318)	2,223,267	(84,922)
Nonoperating revenues (expenses):							
Investment interest	9,707	7,122	7,056	560	1,211	25,656	24,741
Intergovernmental Revenue	-	-	-	27,621	-	27,621	-
Gain (Loss) from sale of Capital Assets	-	-	-	-	-	-	9,541
Interest expense and related charges	(81,747)	(308,575)	-	(5,313)	-	(395,635)	-
Total nonoperating revenue (expense)	(72,040)	(301,453)	7,056	22,868	1,211	(342,358)	34,282
Income (loss) before contributions and transfers	1,096,041	1,062,518	414,789	(179,331)	(513,107)	1,880,910	(50,640)
Transfers in	-	-	-	-	-	-	53,787
Capital contributions	122,000	134,000	70,665	-	-	326,665	-
Transfers out	-	-	-	-	-	-	-
Change in net position	1,218,041	1,196,518	485,454	(179,331)	(513,107)	2,207,575	3,147
Net Position - Beginning	23,546,661	17,431,032	6,032,223	(37,266)	5,394,044	52,366,694	4,986,149
Special Item	38,648	(15,000)	-	-	-	23,648	-
Prior Period Correction	(638,566)	(227,949)	(17,456)	(11,639)	-	(895,610)	(23,090)
Net Position - Ending	\$ 24,164,784	\$ 18,384,601	\$ 6,500,221	\$ (228,236)	\$ 4,880,937	\$ 53,702,307	\$ 4,966,206

The notes to the financial statements are an integral part of this statement

CITY OF ENUMCLAW
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2016

	Business-type Activities - Enterprise Funds					Gov'tal Activities Internal Svc Funds
	Water	Wastewater	Natural Gas	Solid Waste	Expo Center	Total
CASH FLOWS FROM OPERATING ACTIVITIES						
Receipts from customers	\$ 3,038,162	\$ 4,306,262	\$ 3,884,918	\$ 2,057,342	\$ (8,371)	\$ 13,278,313
Receipts for miscellaneous revenue	317,179	333,524	87,171	29,618	8,372	775,864
Payments for insurance and claims	-	-	-	-	-	-
Payments for merchandise	-	-	(1,764,162)	-	-	(1,764,162)
Payments for wages and operating expenses	(972,371)	(2,129,507)	(1,787,763)	(2,287,385)	(60,855)	(7,237,881)
Net cash provided (used) by operating activities	2,382,970	2,510,279	420,164	(200,426)	(60,854)	5,052,132
CASH FLOWS FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES						
Interfund loans	(120,000)	(305,000)	-	-	-	(425,000)
Grant receipts	(625,158)	-	-	27,621	-	(597,537)
Interfund transfers	-	-	-	-	-	-
Net cash (used) by capital financing activities	(745,158)	(305,000)	-	27,621	-	(1,022,537)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Payments for interest	(66,641)	(310,692)	-	(5,313)	-	(382,646)
Proceeds of fixed asset disposal	-	-	-	-	-	-
Capital debt proceeds	4,608,249	337,178	-	172,190	-	5,117,617
Principal payment on bonds	(668,360)	(268,757)	-	-	-	(937,117)
Principal payments on notes	(376,787)	(1,405,113)	-	-	-	(1,781,900)
Purchases of capital assets	(4,649,316)	(232,413)	(363,347)	-	(86,015)	(5,331,091)
Capital Contributions	-	-	-	-	-	-
Net cash (used) by capital financing activities	(1,152,855)	(1,879,796)	(363,347)	166,877	(86,015)	(3,315,136)
Cash Flows From Investing Activities						
Sale (purchase) of investments	(373,907)	(251,484)	(16,395)	9,205	136,876	(495,704)
Interest and dividends on investments	9,707	7,122	7,096	560	1,209	25,694
Net cash provided (used) in investment activities	(364,200)	(244,362)	(9,338)	9,765	138,085	(470,051)
Net increase in cash and equivalents	120,757	81,121	47,479	3,837	(8,784)	244,410
Cash - beginning of year	219,582	145,638	141,404	15,971	29,404	551,999
Cash - end of year	\$ 340,339	\$ 226,759	\$ 188,883	\$ 19,808	\$ 20,620	\$ 796,409
Cash at end of year consists of						
Operating cash	\$ 202,604	\$ 43,171	\$ 188,883	\$ 19,808	\$ 20,620	\$ 475,086
Restricted cash	137,735	183,588	-	-	-	321,323
Total cash at end of year	\$ 340,339	\$ 226,759	\$ 188,883	\$ 19,808	\$ 20,620	\$ 796,409
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:						
Operating income (loss)	\$ 1,168,081	\$ 1,363,971	\$ 407,733	\$ (202,199)	\$ (514,318)	\$ 2,223,268
Adjustments to reconcile operating income to net cash provided (used) by operating activities:						
Depreciation	539,857	1,153,137	164,024	699	460,039	2,317,756
Accumulated long-term leave liability	(4,712)	1,096	(7,236)	907	-	(9,945)
Change in assets and liabilities:						
(Increase) decrease in accounts receivable	(10,393)	(4,804)	(2,199)	(9,913)	(8,371)	(35,682)
(Increase) decrease in inventory of supplies	(7,892)	-	(105,961)	-	-	(113,854)
(Increase) decrease in vouchers and claims payable	698,029	(3,121)	(36,197)	10,081	1,796	670,588
Net cash provided (used) by operating activities	\$ 2,382,970	\$ 2,510,279	\$ 420,163	\$ (200,426)	\$ (60,855)	\$ 5,052,132
Non Cash Investing, Capital and Financing Activities:						
Capital Contributions by Developers	\$ 122,000	\$ 134,000	\$ 70,665	\$ -	\$ -	\$ 326,665
Prior Period Adjustments/Special Items	(599,918)	(242,949)	(17,456)	(11,639)	-	(871,962)
Total Non Cash Investing, Capital and Financing Activities:	\$ (477,918)	\$ (108,949)	\$ 53,209	\$ (11,639)	\$ -	\$ (645,297)

The notes to these financial statements are an integral part of this statement

CITY OF ENUMCLAW
Statement of Net Position
Fiduciary Funds
December 31, 2016

	Schlottfeldt Library Trust Fund	Deposit Holding Agency Fund
ASSETS		
Cash and cash equivalents	\$ 3,093	\$ 9,412
Investments at fair value	23,231	70,807
Receivable (net)	-	-
Total assets	<u>26,324</u>	<u>80,220</u>
LIABILITIES		
Accounts payable	-	14,864
Other liabilities	-	65,356
Total liabilities	<u>-</u>	<u>80,220</u>
NET POSITION		
Net position held in trust for library and other purposes	<u>\$ 26,324</u>	<u>\$ -</u>

The notes to these financial statements are an integral part of this statement

CITY OF ENUMCLAW
Statement of Changes in Net Position
Private Purpose Trust Fund
For the Year Ended December 31, 2016

	<u>Library</u>
ADDITIONS	
Contributions:	
Other sources	\$ 108
Total contributions	<u>108</u>
DEDUCTIONS	
Supplies	<u>-</u>
Total deductions	<u>-</u>
Change in net position held in trust for:	108
Net Position - beginning	<u>26,216</u>
Net Position - ending	<u><u>\$ 26,324</u></u>

The notes to these financial statements are an integral part of this statement

Notes to the Financial Statements
December 31, 2016

NOTE 1 – Summary of Significant Accounting Policies

A. Description of Government-Wide Financial Statements

The government-wide financial statements (i.e, the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. All fiduciary activities are reported only in the fund financial statements. Governmental activities, which normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions, are reported separately from business-type activities, which rely to a significant extent on fees and charges to external customers for support.

B. Reporting Entity

The City of Enumclaw is a municipal corporation governed by an elected mayor and seven-member governing council. The accompanying financial statements of the City of Enumclaw have been prepared in conformity with generally accepted accounting principles (GAAP). The significant accounting policies applicable to the City of Enumclaw are described below.

The City's financial report includes all activity for which the City of Enumclaw is considered to be financially accountable. Financial accountability is determined based on the budget adoption, spending authority, taxing authority, and outstanding debt secured by revenues or general obligations of the City. There are no non-reported activities meeting any of these criteria.

Blended Component Unit – The Enumclaw Transportation Benefit District (TBD) was formed by the City Council on May 13, 2013. The purpose of the district is to fund the maintenance, improvement and preservation of existing transportation infrastructure. The City of Enumclaw Council appointed itself to act as the seven-member governance board of the District. Although it is legally separate from the City of Enumclaw, the Enumclaw Transportation Benefit District is reported as if it were part of the primary government as a Special Revenue Fund because of its governance structure and because its sole purpose is to finance and construct City of Enumclaw streets. The district is funded by a \$20 excise tax on all vehicles registered within the City of Enumclaw and a .1% sales tax effective April 1, 2016. Separately issued financial statements are available from the City of Enumclaw Finance Director.

C. Basis of Presentation – Government-Wide Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental and internal service funds, while business-type activities incorporate data from the Cities enterprise funds. Separate financial statements are provided for the governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments in lieu of taxes where the amounts are reasonable equivalent in value to the interfund services provided and other charges between the City's utilities and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues for the various functions concerned.

D. Basis of Presentation – Fund Financial Statements

The fund financial statements provide information about the City's funds, including its fiduciary funds. Separate statements for each fund category; governmental, proprietary, and fiduciary, are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All enterprise funds are treated as a major fund. All remaining governmental funds are aggregated and reported as nonmajor funds. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements.

The City reports the following major governmental funds:

The *general fund* is the City's primary operating fund. It accounts for all financial resources of the general government, except those accounted for in another fund.

The *street fund* accounts for the planning, engineering, construction and maintenance of City streets.

The *transportation benefit district* accounts for the receipt and disbursement of vehicle excise taxes collected by the Enumclaw Transportation Benefit District, a blended component unit of the City.

The City reports the following major proprietary funds:

The *water, wastewater, natural gas, and solid waste funds* account for the activities of the City's four utilities. Their revenues are received from the sales of materials and supplies, and collection of waste. Expenses are for maintenance and extension of drainage, water, wastewater and gas service systems, equipment and natural gas inventory. These funds also reflect revenue bonds outstanding, the funds available for redemption of bonds, cumulative reserve and construction funds. The *exposition center fund* accounts for the activities at the former King County Fairgrounds, donated to the City in 2007. The operation of the exposition center was contracted out to Enumclaw Expo & Events Association in July of 2015.

Additionally, the City reports the following fund types:

Special revenue funds account for revenues derived from specific taxes, grants or other sources. They are legally restricted to financing specific activities of the City.

Debt service funds account for the accumulation of resources that are restricted, committed, or assigned for the payment of principal and interest on long-term obligations of the governmental funds.

The *capital projects fund* accounts for the acquisition and construction of the City's major capital facilities, other than those financed by proprietary funds.

Internal service funds account for the fleet management, risk management, and data processing services provided to all other departments of the City and other governments on a cost-reimbursement basis.

Permanent funds account for resources that are restricted to the extent that only earnings, not principal, may be used in support of an established purpose. Activities of the funds must benefit the government or its citizenry.

Fiduciary funds are custodial in nature and represent assets held in a trustee or agency capacity for others. These funds do not report results of operations.

During the course of operations the City has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities (i.e, the governmental and internal service funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column. Similarly, balances between the funds included in business-type

activities (i.e, the enterprise funds) are eliminated so that only the net amount is included as internal balances in the business-type activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column. Similarly, balances between the funds included as business-type activities are eliminated so that only the net amount is included as transfers in the business-type activities column.

E. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resources or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. 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 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.

The 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. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Property tax, sales tax, franchise tax, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Expenditure driven grants are recognized as

revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end.) All other revenue items are considered to be measurable and available only when the cash is received by the government.

The proprietary and private-purpose trust funds are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. The agency fund has no measurement focus but utilizes the *accrual basis of accounting* for reporting assets and liabilities.

F. Budgetary Information

1. Budgetary Basis of Accounting

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general fund, special revenue funds, and debt service funds. Proprietary and fiduciary funds are budgeted for management purposes only.

Annual appropriated budgets are adopted at the fund level. Legal budgetary control is also established at the fund level. Subsidiary revenue and expenditure ledgers are used to compare the budgeted amounts with actual revenues and expenditures. As a management control device, the subsidiary ledgers monitor expenditures for individual functions and activities by object class. Appropriations for all funds lapse at year-end. Encumbrances are committed amounts for goods and services ordered or contracts. Encumbrances do not constitute expenditures or liabilities and lapse at year-end.

The City's budget procedures are mandated by RCW 35A.33. On or before November 1, the Mayor submits a proposed budget to the City Council. The budget is based on priorities established by the Council and estimates provided by City departments during the preceding months. They are balanced with revenue estimates made by the Finance Director. Council conducts public hearings on the proposed budget on or before the first Monday in December. The Council makes its adjustments to the proposed budget and adopts by ordinance a final balanced budget no later than December 31st. Within 30 days of adoption, the final budget is available to the public.

2. Excess of Expenditures over Appropriations

The Solid Waste Fund exceeded appropriations by approximately \$16,000 due to increased yard waste disposal costs. Rates were adjusted during the 2017 to prevent future overages.

G. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance

1. Cash and Cash Equivalents

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with maturities of three months or less from the date of acquisition.

2. Investments

Investments for the City are reported at fair value (generally based on quoted market prices) except for the position in the Local Government Investment Pool (LGIP). In accordance with State law, the LGIP operates in conformity with all of the requirements of the Securities and Exchange Commission's (SEC) Rule 2a7 as promulgated under the Investment Company Act of 1940, as amended.

3. Inventories and Prepaid Items

Inventories in governmental funds consist of expendable supplies held for consumption. The cost is recorded as an expenditure at the time individual inventory items are purchased. Inventories in proprietary funds are valued by market value.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

4. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. roads, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column 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 an estimated useful life in excess of two years. Donated capital assets are recorded at estimated acquisition value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Costs for additions or improvements to capital assets are capitalized when they increase the effectiveness, the efficiency or increase the estimated useful life of the assets.

Major outlays for capital and improvements are capitalized at the completion of a project. Street infrastructure assets are entered into the system on a network basis since these assets consist of several different components of street construction. The project plans maintained in the Public Works department provide details regarding these components.

All property, plant and equipment of governmental or business-type activities is depreciated using a straight line method with the following estimated useful lives:

Asset Category	Useful Life (years)
Buildings	45-50
Improvements	10-75
Machinery & Equipment	3-20

The City has acquired certain assets with funding provided by federal financial assistance programs. Depending on the terms of the agreements involved, the federal government could retain an equity interest in these assets. These assets are identified in the asset system as partially grant funded for tracking purposes in the event of a sale or surplus of the item. See Note 4-D.

5. Deferred Outflows/Inflows of Resources

In addition to assets, the Governmental Funds Balance Sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to the future period(s) and so will not be recognized as an outflow of resources (expenses/expenditure) until then. The category of deferred outflow of resources reported in the government-wide and proprietary fund statements of net position relates to pensions.

In addition to liabilities, the Balance Sheet and Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. Deferred inflows of resources reported by the City relate to unavailable revenue and pensions. The governmental funds report unavailable revenue from two sources, property taxes

and special assessments. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

6. Fund Balance Flow Assumptions

Sometimes the City will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements flow assumption must be made about the order in which resources are considered to be applied. It is the government's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

7. Fund Balance Policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The government itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. The City Council is the highest level of decision-making authority for the City that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation. Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as committed. Additional Council action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

H. Revenues and Expenditures/Expenses

1. Property Taxes

The King County Treasurer acts as an agent to collect property taxes levied for all taxing authorities in the County. Collections are distributed daily via wire transfer from the County.

The property tax calendar is as follows:

Date		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	A penalty of 3% is assessed on delinquent current year taxes
May	31	Assessed value of property established for next year's levy
October	31	Second installment is due
November	30	A penalty of 8% is assessed on delinquent current year taxes

Property taxes are levied by the County Assessor and collected by the County's Budget/Finance Office. Payments may also be mailed to the County Assessor's Office. A lien is placed on the property on the first day of the levy year and may be paid in two equal installments if the total amount exceeds \$50. Delinquent taxes are charged an interest rate of 12%. If not paid by the assigned date, additional penalties will be assessed – an additional 3% after May 31st and an additional 8% after November 30 of the same year.

The State Legislature has established the maximum regular property tax rate for cities at \$3.60 per \$1,000 of assessed valuation. Since the City has annexed into a Fire District and Library district, the maximum regular levy available to the City is \$1.60, which is \$3.60 less \$1.50 for the Fire District and \$.50 for the library district. The City of Enumclaw's regular levy for 2016 was \$1.53059 per \$1,000 of assessed valuation of \$1,190,797,268 for a total regular levy of \$1,822,628.

Washington State Constitution and Washington State Law, RCW 84.55.010, limit the levy rate.

2. Compensated Absences

Vacation

The City's policy permits employees to accumulate earned but unused vacation benefits, which are eligible for payment upon separation from City service. The liability for such leave is reported as incurred in the government-wide and proprietary fund financial statements. A liability for those amounts is recorded in the governmental funds only if the liability has matured as a result of employee resignation or retirements. The liability for compensated absences includes salary related benefits, where applicable.

Sick Leave

In accordance with the provisions of GASB No. 16, Accounting for Compensated Absences, no liability is recorded for non-vesting accumulating rights to receive sick leave benefits. However, a liability is recognized for that portion of accumulating sick leave benefits that it is estimated will be taken upon termination. Sick leave may accumulate up to a maximum of 1,056 hours. After ten years of employment, 25% of accumulated sick leave is payable upon resignation, retirement or death. For this purpose, 120 hours will be the maximum paid out.

3. Proprietary Funds Operating and Nonoperating Revenues and Expenses

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 from the water, wastewater, natural gas, and solid waste funds are charges to customers for sales and services. The exposition center fund's principal operating revenues come from short and long-term facility rentals. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

I. Pensions

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

Note 2. Reconciliation of Government-Wide and Fund Financial Statements

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

The governmental fund balance sheet includes a reconciliation between fund balance – total governmental funds and net position – governmental activities as reported in the government-wide statement of net position. One element of that reconciliation explains that “capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.” The details of this \$40,363,230 are as follows:

Land	\$ 8,225,901
Construction in Progress	194,723
Buildings	4,153,188
Less: Accumulated Depreciation - buildings	(2,299,502)
Improvements	40,690,422
Less: Accumulated Depreciation - improvements	(11,203,913)
Machinery & Equipment	1,709,179
Less: Accumulated Depreciation - machinery & equipment	<u>(1,106,767)</u>

Net adjustment to increase fund balance - total governmental funds to arrive at net position - governmental activities	<u>\$ 40,363,230</u>
--	----------------------

(*does not include Internal Service Fund Assets)

Another element of that reconciliation explains that “internal service funds are used by management to charge the costs of fleet management, risk management, and data processing services to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position.” The net position of the internal service funds is \$4,966.206.

Another element of that reconciliation explains that “long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.” The details of this (\$5,420,588) difference are as follows:

Bonds and Notes Payable	\$ (3,095,683)
Compensated Absences	(759,896)
Net OPEB Liability	(585,310)
Net Pension Liability and Asset, including deferred items	(979,699)
Net adjustment to reduce fund balance - total governmental funds to arrive at net position - governmental activities	<u>\$ (5,420,588)</u>

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

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances – total governmental funds and changes in net position of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation explains that governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense exceed scapital outlays in the current period. The details of this (\$245,934) difference are as follows:

Capital Outlay	\$ 632,409
Depreciation Expense	<u>(878,343)</u>
Net adjustment to reduce net changes in fund balance - total governmental funds to arrive at changes in net position of governmental funds	<u>\$ (245,934)</u>

Another element of that reconciliation states that 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. The details are as follows:

Compensated Absences & Court Receivables	\$ (11,648)
--	-------------

Another element of that reconciliation states that internal service funds are used by management to charge the costs of fleet management, risk management, and data processing to individual funds. The net revenue of certain activities in the internal service funds is reported with governmental activities as follows:

Internal Service Funds Change in Net Revenue	\$ 3,147
--	----------

Note 3. Stewardship, Compliance, and Accountability

- A. Violations of legal or contractual provisions** – There have been no material violations of finance-related legal or contractual provisions.
- B. Deficit Fund Equity** – The Solid Waste Fund has a deficit fund equity due to the booking of the GASB 68 Pension Liability. The City will evaluate rates in 2017 to determine if an increase is necessary.
- C.** Welcome Center Construction Fund was closed in 2015 and the balance returned equally to the REET funds.

Note 4. Detailed Notes on all Activities and Funds

A. Cash Deposits with Financial Institutions

On December 31, 2016, the City of Enumclaw's operating account bank balance was \$2,432,080, retainage was \$18,911 and court was \$34,260. An additional \$5,320 represents petty cash funds held for minor reimbursement requests. These totals net with reconciling items of (\$28,925) to equal cash and equivalents reported in the statements of \$2,461,646.

Custodial Credit Risk: Custodial credit risk is the risk that in the event of a bank failure, the City will not be able to recover deposits or collateral securities that are in the possession of an outside party. The city's bank balance is insured by the FDIC which insures the first \$250,000 of the City's deposits. The deposit balances over \$250,000 are insured by the Washington Public Deposit Protection Commission (WPDPC). The WPDPC is a multiple financial institution collateral pool. State statute permits additional amounts to be assessed on a pro rata basis to members of the pool in the event the pool's collateral should be insufficient to cover a loss.

The City does not have a formal policy for custodial credit risk beyond the requirements of State statute. State law restricts deposit of funds in financial institutions physically located in Washington unless expressly permitted by statute and authorized by the WPDPC.

B. Investments

The City's investment policy, developed by the Finance Department, is adopted by City Council. Authority to manage the investment program is derived from City of Enumclaw Resolution No. 1210. This resolution gives the Finance Director authority to invest in any of the securities identified as eligible investments as defined by State Statute with primary emphasis of safety, liquidity and yield.

The table below identifies the investment types that are authorized for the City of Enumclaw by the State of Washington (or the City's Investment Policy where more restrictive):

Authorized Investment Type	Maximum Portfolio%
U.S. Treasury Obligations	100%
U.S. Agency Coupon Securities	100%
U.S. Agency Discount Notes	100%
Repurchase Agreements	50%
Certificates of Deposit	50%
Bankers Acceptance	50%
State of WA Local Gov't Investment Pool	100%

The City participates in the Washington State Treasurer's Local Government Investment Pool (LGIP). The LGIP is comparable to a Rule 2a-7 money market fund recognized by the Securities and Exchange Commission. It is managed by the Office of the State Treasurer, which is responsible for establishing the investment policy for the pool.

The LGIP was established by the State of Washington in 1986 for the purpose of providing political subdivisions of the State a mechanism whereby they may utilize the resources of the State Treasurer's Office to maximize the potential of surplus funds while ensuring the safety of public funds. The State Auditor's Office audits the accounts of the State Treasurer to determine the compliance of investment activities with state statute and the investment policy. Also, an independent audit of the Pool's financial statements is performed annually. The State Treasurer has created an Advisory Committee consisting of eight members appointed by participant associations and four members appointed by the State Treasurer. The committee meets at least quarterly to provide advice on the operation of the pool.

As of December 31, 2016, the City had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>
U.S. Treasuries	\$ 7,020,992
Local Gov't Investment Pool	<u>10,981,879</u>
Tota Fair Value	\$ 18,002,871

Interest Rate Risk: As a means of minimizing risk of loss arising from interest rate fluctuations, the City's investment policy requires that no single institution or security is invested to such an extent that a delay of liquidation at maturity is likely to cause a current cash flow emergency. With the exception of U.S Treasury securities and the LGIP, the City will invest no more than fifty percent (50%) of its total investment portfolio in a single security type or with a single financial institution.

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.

The City's investment policy limits the type of securities available for investment to obligations of government-sponsored corporations which are eligible as collateral for advances to member banks as determined by the Board of Governors of the Federal Reserve System, certificates, notes, or bonds of the United States, or other obligations of the United States or its agencies, or of any corporation wholly owned by the government of the United States, bonds of the State of Washington and any local government in the state provided they carry a current debt rating in the top three categories of a nationally recognized rating agency at the time of investment, Prime Bankers Acceptances purchased on the secondary market, and the LGIP.

The credit risk of the LGIP is limited to obligations of the United States government, government sponsored enterprises, or insured demand deposit accounts and certificates of deposit.

Custodial Credit Risk: Custodial credit risk for investments is the risk that, in the event of failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's investment policies require that all investments be held by the City's third party safekeeping agent in the City's name. As of December 31, 2016 all of the \$7,020,992 investments in U.S. agency debt obligations and municipal securities were registered, and held by its safekeeping agent in the City's name. Therefore, the City has no outstanding investments that were exposed to custodial credit risk.

C. Receivables

Amounts are aggregated into a single accounts receivable (net of allowance for uncollectable) line for certain funds and aggregated columns for others. Below is the detail of receivables for the general, street and nonmajor governmental funds in the aggregate; as well as the enterprise and internal service funds:

Receivables	General	Street	Nonmajor Governmental	Enterprise	Internal Service	Total
Accounts	\$ 88,433	\$ 6,269	\$ 8,272	\$ -	\$ 3,514	\$ 106,488
Property Taxes	84,034	-	-	-	-	84,034
Sales Tax	200,773	-	-	-	-	200,773
Special Assessments	-	-	424,928	-	-	424,928
Water	-	-	-	349,241	-	349,241
Wastewater	-	-	-	460,348	-	460,348
Natural Gas	-	-	-	736,965	-	736,965
Solid Waste	-	-	-	236,439	-	236,439
Expo	-	-	-	9,391	-	9,391
Total Receivables	<u>\$ 373,240</u>	<u>\$ 6,269</u>	<u>\$ 433,200</u>	<u>\$ 1,792,384</u>	<u>\$ 3,514</u>	<u>\$ 2,608,607</u>

Based on the payment schedule for special assessments receivables, \$421,200 of the amount reported in the debt service fund is not expected to be collected within the next year. Revenues of the four utilities are reported net of uncollectible amounts. Total uncollectible amounts related to sales of prior period amounts to \$10,521.

2 FINAL 2016 Financial Stmt Notes .docx

D. Capital Assets

Capital assets activity for the year ended December 31, 2016, was as follows:

Governmental Activities:	Balance January 1, 2016	Increases	Decreases	Balance December 31, 2016
Capital assets, not being depreciated:				
Land	\$ 8,210,077	\$ 16,200	\$ -	\$ 8,226,277
Construction-in-progress	<u>2,044,035</u>	<u>169,483</u>	<u>(1,909,297)</u>	<u>304,221</u>
Total capital assets, not being depreciated	<u>10,254,112</u>	<u>185,683</u>	<u>(1,909,297)</u>	<u>8,530,498</u>
Capital assets, being depreciated:				
Buildings	4,153,188	-	-	4,153,188
Improvements	39,957,640	1,149,783	(4,554)	41,102,870
Machinery & Equipment	<u>6,270,886</u>	<u>724,052</u>	<u>(27,125)</u>	<u>6,967,813</u>
Total capital assets, being depreciated	<u>50,381,714</u>	<u>1,873,835</u>	<u>(31,679)</u>	<u>52,223,870</u>
Less accumulated depreciation for:				
Buildings	(2,208,524)	(112,690)	21,712	(2,299,502)
Improvements	(10,612,679)	(702,038)	931	(11,313,786)
Machinery & Equipment	<u>(4,513,949)</u>	<u>(337,306)</u>	<u>-</u>	<u>(4,851,255)</u>
Total accumulated depreciation	<u>(17,335,153)</u>	<u>(1,152,034)</u>	<u>22,643</u>	<u>(18,464,544)</u>
Total capital assets being depreciated, net	<u>33,046,561</u>	<u>721,802</u>	<u>(9,036)</u>	<u>33,759,326</u>
Governmental activities capital assets, net	<u>\$ 43,300,673</u>	<u>\$ 907,484</u>	<u>\$ (1,918,333)</u>	<u>42,289,824</u>

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

Governmental Activities:	
General Government	\$ 35,225
Public Safety	156,357
Economic Environment	475,033
Transportation	1,185
Culture & Recreation	192,981
Internal Services	<u>291,253</u>
Total depreciation expense - governmental activities	<u>\$ 1,152,034</u>

2 FINAL 2016 Financial Stmt Notes .docx

Business-type activities	Balance January 1, 2016	Increases	Decreases	Balance December 31, 2016
Capital assets, not being depreciated:				
Land	\$ 3,707,570	\$ -	\$ -	\$ 3,707,570
Construction-in-progress	<u>1,262,936</u>	<u>4,840,434</u>	<u>(237,985)</u>	<u>5,865,385</u>
Total capital assets, not being depreciated	<u>4,970,506</u>	<u>4,840,434</u>	<u>(237,985)</u>	<u>9,572,955</u>
Capital assets, being depreciated:				
Buildings	23,631,335			23,631,335
Improvements	66,445,968	743,108		67,189,076
Machinery & Equipment	<u>3,157,458</u>	<u>99,760</u>	<u>-</u>	<u>3,257,218</u>
Total capital assets, being depreciated	<u>93,234,761</u>	<u>842,868</u>	<u>-</u>	<u>94,077,629</u>
Less accumulated depreciation for:				
Buildings	(8,710,605)	(678,175)	444	(9,388,336)
Improvements	(18,951,797)	(1,470,643)	1,949	(20,420,491)
Machinery & Equipment	<u>(1,623,721)</u>	<u>(171,857)</u>	<u>665</u>	<u>(1,794,913)</u>
Total accumulated depreciation	<u>(29,286,123)</u>	<u>(2,320,675)</u>	<u>3,058</u>	<u>(31,603,740)</u>
Total capital assets being depreciated, net	<u>63,948,638</u>	<u>(1,477,807)</u>	<u>3,058</u>	<u>62,473,889</u>
Business-type activities capital assets, net	<u>\$ 68,919,144</u>	<u>\$ 3,362,627</u>	<u>\$ (234,927)</u>	<u>72,046,844</u>

Depreciation expense was charged to the business-type activities as follows:

Enterprise Activities	
Water	\$ 540,044
Wastewater	1,155,869
Natural Gas	164,024
Solid Waste	699
Expo	<u>460,039</u>
Total depreciation expense - business-type activities	<u>\$ 2,320,675</u>

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	\$ 4,462,994
Pension assets	\$434,061
Deferred outflows of resources	\$ 1,004,354
Deferred inflows of resources	\$ 120,186
Pension expense/expenditures	\$ 494,339

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 defined benefit public employee 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 comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained in writing to:

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

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

Public Employees' Retirement System (PERS)

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

PERS Plan 1 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service. The AFC is the average of the member's 24 highest consecutive service months. Members are eligible

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

Contributions

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

PERS Plan 1		
Actual Contribution Rates:	Employer	Employee*
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 \$231,822 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 2015 were as follows:

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

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

The City of Enumclaw's actual contributions to the plan were \$271,193 for the year ended December 31, 2016. PERS Plan 1UAAL is included under the PERS 1 contributions above.

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

2 FINAL 2016 Financial Stmt Notes .docx

- 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.

2 FINAL 2016 Financial Stmt Notes .docx

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

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

The City of Enumclaw actual contributions to the plan were \$22,863 for the year ended December 31, 2016. PERS Plan 1 UAAL is included under the PERS 1 contributions above.

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 2015 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 of Enumclaw actual contributions to the plan were \$75,844 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 \$48,964.

Actuarial Assumptions

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

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

- **Inflation:** 3% 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.

- For all systems, except LEOFF Plan 2, the assumed valuation interest rate was lowered from 7.8% to 7.7%. Assumed administrative factors were updated.
- Valuation software was corrected on how the nonduty disability benefits for LEOFF Plan 2 active members is calculated.
- New LEOFF Plan 2 benefit definitions were added within the OSA valuation software to model legislation signed into law during the 2015 legislative session.

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 of Enumclaw proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the City of Enumclaw 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	Current Discount Rate	1% Increase
	-6.50%	-7.50%	-8.50%
PERS 1	2,563,364	2,125,686	1,749,038
PERS 2/3	4,228,878	2,296,830	(1,195,633)
PSERS 2	175,762	40,478	(55,885)
LEOFF 1	(88,224)	(148,516)	(200,051)
LEOFF 2	800,748	(285,545)	(1,104,295)

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 of Enumclaw reported a total pension liability of \$4,462,994 for its proportionate share of the net pension liabilities as follows:

	Liability (or Asset)
PERS 1	\$2,125,686
PERS 2/3	\$2,296,830
PSERS 2	\$40,478
TOTAL	\$4,462,994
LEOFF 1	(\$148,516)
LEOFF 2	(\$285,545)
TOTAL	(\$434,061)

The amount of the liability/(asset) reported above for LEOFF Plan 2 reflects a reduction for State pension support provided to the City of Enumclaw. The amount recognized by the City of Enumclaw 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 of Enumclaw were as follows:

	Liability (or Asset)
LEOFF 2 – employer’s proportionate share	(\$285,545)
LEOFF 2 – State’s proportionate share of the net pension liability/(asset) associated with the employer	(\$186,155)
TOTAL	(\$471,700)

At June 30, the City of Enumclaw 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	0.040327%	0.039581%	-0.000746%
PERS 2/3	0.046989%	0.045618%	-0.001371%
PSERS 2	0.090881%	0.095247%	0.004366%
LEOFF 1	0.014399%	0.014415%	0.000016%
LEOFF 2	0.051214%	0.049094%	-0.002120%

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 2016, 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 39.80 percent of LEOFF 2 employer contributions pursuant to RCW 41.27.726 and all other employers contributed the remaining 60.20 percent of employer contributions.

The collective net pension liability (asset) was measured as of June 30, 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 of Enumclaw recognized pension expense as follows:

	Pension Expense
PERS 1	\$73,473
PERS 2/3	\$315,026
PSERS 2	\$29,222
LEOFF 1	(\$19,369)
LEOFF 2	\$95,987
TOTAL	\$494,339

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2016, the City of Enumclaw 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	53,521.00	-
Changes of assumptions	-	\$
Changes in proportion and differences between contributions and proportionate share of contributions	-	
Contributions subsequent to the measurement date	119,623.00	\$
TOTAL	173,144.00	-

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	122,305.00	(75,822.00)
Net difference between projected and actual investment earnings on pension plan investments	281,066.00	-
Changes of assumptions	23,740.00	-
Changes in proportion and differences between contributions and proportionate share of contributions	15,786.00	(43,259.00)
Contributions subsequent to the measurement date	139,251.00	\$
TOTAL	582,148.00	(119,081.00)

PSERS	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	13,788.00	-
Net difference between projected and actual investment earnings on pension plan investments	8,348.00	-
Changes of assumptions	157.00	-
Changes in proportion and differences between contributions and proportionate share of contributions	651.00	-
Contributions subsequent to the measurement date	12,565.00	\$
TOTAL	35,509.00	-

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	15,096.00	-
Changes of assumptions		
Changes in proportion and differences between contributions and proportionate share of contributions		
Contributions subsequent to the measurement date		
TOTAL	15,096.00	-

LEOFF 2	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	39,127.00	-
Net difference between projected and actual investment earnings on pension plan investments	102,608.00	-
Changes of assumptions	1,077.00	-
Changes in proportion and differences between contributions and proportionate share of contributions	15,196.00	-
Contributions subsequent to the measurement date	40,449.00	-
TOTAL	198,457.00	-

2 FINAL 2016 Financial Stmt Notes .docx

All Plans	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	175,220.00	(75,822.00)
Net difference between projected and actual investment earnings on pension plan investments	460,640.00	-
Changes of assumptions	24,973.00	-
Changes in proportion and differences between contributions and proportionate share of contributions	31,633.00	(43,259.00)
Contributions subsequent to the measurement date	311,887.00	-
TOTAL	1,004,353.00	(119,081.00)

Deferred outflows of resources related to pensions resulting from the City of Enumclaw 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
2017	(13,178.00)
2018	(13,178.00)
2019	49,154.00
2020	30,724.00
2021	-
Thereafter	-
Total	53,522.00
Year ended December 31:	PERS 2/3
2017	(5,355.00)
2018	(5,355.00)
2019	204,020.00
2020	130,505.00
2021	-
Thereafter	-
Total	323,815.00

Year ended December 31:	PSERS
2017	2,842.00
2018	2,842.00
2019	7,985.00
2020	6,283.00
2021	2,901.00
Thereafter	91.00
<i>Total</i>	<i>22,944.00</i>
Year ended December 31:	LEOFF 1
2017	(3,120.00)
2018	(3,120.00)
2019	13,075.00
2020	8,261.00
2021	-
Thereafter	-
<i>Total</i>	<i>15,096.00</i>
Year ended December 31:	LEOFF 2
2017	1,680.00
2018	1,680.00
2019	87,858.00
2020	61,447.00
2021	5,344.00
Thereafter	-
<i>Total</i>	<i>158,009.00</i>

E. Other postemployment benefit (OPEB) obligations

In addition to pension benefits discussed above, the City of Enumclaw provides post-retirement health care benefits in accordance with the Revised Code of Washington (RCW) 41.26. These are lifetime medical care for retired LEOFF I public safety employees. Under this requirement, most coverage for eligible retirees is provided in the City's one and only employee medical insurance program. However, under authorization of the LEOFF I Disability Board, direct payment is also made for retiree medical expenses not covered by standard benefit plan provisions. There are currently six* (6) LEOFF Plan I recipients. The City finances the plan on a pay-as-you-go basis.

Cost of providing these post-retirement health care benefits in 2016 was as follows:

Medical Insurance Program Premiums	15,616.07
<i>Five (5) LEOFF I eligible for Medicare part A & B</i>	
Enumclaw Direct Medical payments	33,157.93
<i>Five (5) LEOFF I eligible for Reimbursement of out of pocket medical expenses, Medicare Part B, prescriptions, dental, eye exams, glasses, etc. and, assisted living as determined by King County Disability Retirement Board</i>	
Total Costs	\$48,774.00

Annual OPEB Cost and Net OPEB Obligation

The City used the alternative measurement method permitted under GASB Statement No. 45. A single retirement age of 56.24 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 used in the June 30, 2007 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 2007. 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. 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 Actual Required Contribution (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 actuarial liabilities over a period of 25 years using closed group contribution rates. The following table shows the components of the city's annual OPEB cost for the year and the amount actually contributed to the plan. The net OPEB liability of \$585,310 is included as a non-current liability in the Statement of Net Position. The city's percentage of annual OPEB cost contributed to the plan for 2016 was 25%. As of 12/31/2016, the City had committed \$150,000 of General Fund reserves to the OPEB liability. In the 2017 budget this was increased by \$100,000 to a total of \$250,000.

2 FINAL 2016 Financial Stmt Notes .docx

	2012	2013	2014	2015	2016
Actuarial Accrued Liability (AAL)	\$ 1,743,077	\$ 2,190,882	\$ 2,190,882	\$ 2,190,882	\$ 2,190,882
Annual Required Contribution (ARC)	\$ 162,305	\$ 197,050	\$ 197,050	\$ 197,050	\$ 197,050
Interest on Prior Year's Net Obligation					
Annual OPEB Requirement	162,305	197,050	197,050	197,050	197,050
Less: City Contribution	(70,063)	(77,178)	(73,646)	(58,380)	(48,774)
Subtotal	92,242	119,872	123,404	138,670	148,276
Cumulative Net Obligation, PY	(37,154)	55,088	174,960	298,364	437,034
Net Obligation, Year-end	\$ 55,088	\$ 174,960	\$ 298,364	\$ 437,034	\$ 585,310

Association of Washington Cities Employee Benefit Trust

The City of Enumclaw 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, 270 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 Group Health, 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 two appointed individuals from the AWC Board of Directors, who are from Trust member cities or towns. The Trustees or its appointed delegates review and analyze Health Care Program related matters and make operational decisions regarding premium contributions, reserves, plan options and benefits in compliance with Chapter 48.62 RCW.

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

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

Tomorrow

F. Risk Management

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

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

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

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

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

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

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

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

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

The City's settlements did not exceed the insurance coverage in the past three years.

G. Long –Term Debt and Leases

General obligation bonds

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both governmental and business-type activities. In 2016 the City of Enumclaw Transportation Benefit Districted issued \$2,750,000 of GO Bonds for Street Improvements. The Cole Street Bond will be paid off in 2018.

General obligation bonds are direct obligations and pledge the full faith and credit of the City. These bonds generally are issued as 20-year serial bonds. General obligation bonds are created by a 60% majority vote of the people and, therefore, financed by a special tax levy; or created by ordinance, adopted by the City Council and normally financed from general fund revenues.

Name of Issuance	Purpose	Maturity Range	Interest Rate	Original Amount	Debt Outstanding
2003 LTGO Cole Street	Governmental Activities	5/22/03 to 6/1/18	3.60%	759,500	\$ 95,682
2016 LTGO Bond Transportation BD	Governmental Activities	10/19/16 to 12/1/31	2.43%	2,750,000	2,750,000
					<u>\$ 2,845,682</u>

Governmental Activities			
Year Ending December 31	Principal	Interest	Total Requirement
2017	210,214	77,216	287,430
2018	191,468	63,689	255,157
2019	162,000	59,389	221,389
2020	166,000	55,453	221,453
2021	170,000	51,419	221,419
2022-2026	915,000	193,039	1,108,039
2027-2031	1,031,000	76,326	1,107,326
	-	-	-
Total	<u>\$ 2,845,682</u>	<u>\$ 576,531</u>	<u>\$ 3,422,213</u>

Government Loans

In 2008 the City drew loan funds for public work trust fund construction loan agreements with the State Department of Community Development and drinking water loans through the Environmental Protection Agency. Loans for governmental activity purposes are financed through the street fund and loans for business-type activity purposes are financed through the water and wastewater funds. In 2016 the City acquired a LOCAL loan from Washington State to finance several pieces of large equipment. The loans were used in both governmental and proprietary funds, and therefore the repayment is split between the two categories. In 2013 the City was awarded two Drinking Water State Revolving Fund loans to finance resurfacing of the Water Reservoir and other Water Improvement projects. Both of these projects were ongoing as of 12/31/16.

2 FINAL 2016 Financial Stmt Notes .docx

Government Loans

Name of Issuance	Purpose	Maturity Range	Interest Rate	Amount of Issue	Debt Outstanding
Waterline PWTF Loan	Business-type Activities	4/22/96 to 7/1/18	1.00%	7,000,000	753,575
Y Bar S Acquisition	Business-type Activities	10/01/09 to 10/01/29	1.50%	730,248	463,772
WWTP Expansion PWTF	Business-type Activities	9/15/03 to 9/15/23	5.00%	24,700,000	11,819,791
LOCAL Loan	Business-type Activities	12/01/16 to 06/01/26	2.06%	437,393	437,393
DWSRF Water Reservoir	Business-type Activities	6/1/13 to 10/1/37	1.50%	5,777,775	4,282,044
DWSRF Water Improvements	Business-type Activities	6/30/13 to 10/1/37	1.50%	1,778,000	944,729
LOCAL Loan	Governmental Activities	12/01/16 to 06/01/26	2.06%	214,677	214,677
					<u>\$ 18,915,980</u>

Governmental Activities				Business-type			
Year Ending December 31	Principal *	Interest	Total Requirement	Year Ending December 31	Principal	Interest	Total Requirement
2017	\$ 15,202	\$ 10,019	\$ 25,221	2017	1,851,521	94,005	1,945,526
2018	\$ 18,248	9,426	27,674	2018	2,119,067	252,227	2,371,293
2019	18,978	8,586	27,564	2019	1,743,767	142,822	1,886,589
2020	19,927	7,614	27,541	2020	1,745,700	129,315	1,875,015
2021	20,923	6,593	27,516	2021	1,747,730	115,708	1,863,439
2022-2026	<u>121,398</u>	<u>15,766</u>	<u>137,165</u>	2022-2026	6,541,498	379,081	6,920,579
Total	<u>\$ 214,677</u>	<u>\$ 58,004</u>	<u>\$ 272,681</u>	2027-2031	1,383,988	178,143	1,562,131
				2032-2036	1,306,693	78,402	1,385,095
				2037	<u>261,339</u>	<u>3,920</u>	<u>265,259</u>
				Total	<u>\$ 18,701,303</u>	<u>\$ 1,373,622</u>	<u>\$ 20,074,925</u>

*Gov't portion of Local Loan

Revenue Bonds

The City also issued bonds where the government pledged income derived from the acquired or constructed assets to pay debt service. Revenue bonds are created by ordinance, adopted by the City Council and financed from enterprise fund revenues. The original amount of revenue bonds issued was \$12,700,000. The water/wastewater revenue bonds are issued to finance capital projects.

Name of Issuance	Purpose	Maturity Range	Interest Rate	Original Amount	Debt Outstanding
2005 Water/Wastewater Refund	Business-type Activities	6/3/05 to 9/1/17	2.6% to 4%	7,040,000	\$ 730,000
2011 Water/Wastewater	Business-type Activities	2/1/11 to 9/1/30	2% to 4.5%	5,660,000	4,555,000
					<u>\$ 5,285,000</u>

Business-type Activities			
Year Ending December 31	Principal	Interest	Total Requirement
2017	975,000	247,425	1,222,425
2018	255,000	208,425	463,425
2019	260,000	198,225	458,225
2020	275,000	186,525	461,525
2021	370,000	174,150	544,150
2022-2026	2,150,000	787,500	2,937,500
2027-2030	<u>1,000,000</u>	<u>200,000</u>	<u>1,200,000</u>
Total	\$ 5,285,000	\$ 2,002,250	\$ 7,287,250

To service revenue debt, \$1,113,451.76 was available in the Revenue Bond Reserve Fund as of December 31, 2016.

Water and Wastewater revenue bond covenants require that revenue available for debt service (*defined as operating and non-operating revenues less expenses requiring payment to outside entities*) exceed the annual debt payment of both principle and interest by a ratio of 1.25 times the maximum annual debt service. There are numerous limitations and restrictions contained in the various bond indentures. The City is in compliance with all significant limitations and restrictions.

Changes in Long-Term Liabilities

Changes in the City's long-term liabilities for the year ended December 31, 2016 are as follows:

<i>Governmental Activities:</i>	Balance January 1, 2016	Additions	Reductions	Balance December 31, 2016	Due Within One Year
Bonds Payable					
General Obligation Bonds	\$ 156,672	\$ 2,750,000	\$ 60,989	\$ 2,845,683	\$ 210,214
Special Assessment Bonds	0	-	-	0	-
Total Bonds Payable	156,672	2,750,000	60,989	2,845,683	210,214
Government Loans	30,781	214,677	30,781	214,677	15,202
Premiums/Discounts (1)	-	35,323	-	35,323	-
Total Loans Payable	-	35,323	-	250,000	-
Compensated Absences	808,603	23,478	-	832,081	290,547
Governmental Activities L-T Liabilities	<u>\$ 996,056</u>	<u>\$ 3,023,478</u>	<u>\$ 91,770</u>	<u>\$ 3,927,764</u>	<u>\$ 515,964</u>
<i>Business-type Activities</i>					
Bonds Payable					
Revenue Bonds	\$ 6,220,000	\$ -	\$ 935,000	\$ 5,285,000	\$ 975,000
Less Deferred Amounts for					
Premiums/Discounts	73,390	31,394	18,405	86,379	-
General Obligation Bonds	-	-	-	-	-
Total Bonds Payable	6,293,390	31,394	953,405	5,371,379	975,000
Compensated Absences	273,515	36,009	-	309,524	102,143
Government Loans	14,857,686	5,664,165	1,820,548	18,701,303	1,851,521
Premiums/Discounts (1)	-	72,177	-	72,177	-
Total Loans Payable	14,857,686	5,736,342	1,820,548	18,773,480	1,851,521
Buiness-type Activities L-T Liabilities	<u>\$ 21,424,590</u>	<u>\$ 5,803,745</u>	<u>\$ 2,773,953</u>	<u>\$ 24,454,382</u>	<u>\$ 2,928,664</u>

(1) LOCAL Loan was issued at a premium by the state of washington

Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities are included as part of the above totals for governmental activities. At year- end \$72,185 of internal service fund compensated absences are included in the above amounts.

Compensated absences are liquidated by the applicable fund for both governmental and business-type activities.

All bond issues comply with arbitrage regulations as monitored by the Finance Department and outside counsel.

H. Fund Balance

Minimum Fund Balance Policy

The City has adopted a fund balance reserve policy which defines minimum fund balances for the majority of the City's funds. In the event that the balance drops below the established minimum level, City Administration, Finance and Council will develop a plan to replenish the fund balance to the established minimum level as economic conditions allow.

Contingency (Stabilization) Fund

The City created a Contingency Fund under RCW 35A.33.145 to be used for expenses that occur that could not have been foreseen or reasonably evaluated at the time of adopting the annual budget. The maximum accumulation is 37.5 cents per 1,000 of assessed value. Funds can only be used by the majority action of City Council through a budget amendment. At year-end the City had \$323,023 in the fund, which was less than the allowed maximum of \$446,549 (based on AV of \$1,190,797,268).

Fund Balance Classifications

The Governmental Accounting Standards Board (GASB) has issued Statement No. 54, *Fund Balance Reporting and Government Fund Type Definitions* (GASB 54). This Statement defines the different fund balance categories that a governmental entity must use for financial reporting purposes in its governmental fund types.

GASB 54 requires governmental type fund balance amounts to be properly reported within one of the fund balance categories listed below:

- a. Nonspendable – Amounts that cannot be spent either because they are nonspendable in form or because they are legally or contractually required to be maintained intact.
- b. Restricted – Amounts that can be spent only for specific purposes because of constitutional or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.
- c. Committed – Amounts that can be used only for specific purposes determined by a formal action of the City Council. The same formal action must be taken to remove or change the limitations placed on the funds. The City Council is the highest level of decision making authority for the City.
- d. Assigned – Amounts that do not meet the criteria to be classified as restricted or committed, but that are intended to be used for specific purposes. The City has granted authority to the City Manager to assign fund balance amounts.
- e. Unassigned – The residual classification for government's general fund and includes all spendable amounts not contained in the other classifications. Additionally, other funds may report negative unassigned fund balance in certain circumstances.

I. Interfund Loan Receivables and Payables

The composition of interfund balances as of December 31, 2016 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
ER&R	Water	\$ 90,000
Seized Assets	Sewer	\$ 10,000
ER&R	Sewer	275,000
ER&R	LID 215	121,448
Total		<u>\$ 496,448</u>

The interfund loan receivables/payables balances shown above include three loans:

- 1) ER&R \$160,000 loan to Y BAR S LID fund, P&I payments due annually throughout the life of the LID.
- 2) ER&R \$800k loan to Wastewater to be paid in full by June 2017.
- 3) ER&R \$300k loan to Water to be paid in full by August 2017.
- 4) Seized Asset Fund loan to Sewer for sale of a vehicle in 2015.

J. Interfund Transfers

The composition of interfund transfers for the year ended December 31, 2016 is as follows:

	<u>Transfer in:</u>						<u>Totals</u>
	<u>General Fund</u>	<u>Street Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Debt Service Fund</u>	<u>Enterprise Fund</u>	<u>Internal Service Funds</u>	
<u>Transfer out:</u>							
General Fund	\$ -	\$ 601,475	\$ 187,771	\$ -	\$ -	\$ -	\$ 789,246
Street			233,300				233,300
Nonmajor governmental funds	-	300,012	12,000	65,810		53,787	431,609
ER& R Fund	-	-	-	-	-	-	-
Total	<u>\$ -</u>	<u>\$ 901,487</u>	<u>\$ 433,071</u>	<u>\$ 65,810</u>	<u>\$ -</u>	<u>\$ 53,787</u>	<u>\$ 1,454,156</u>

During the year transfers in/out are used to move revenues to the debt service funds and support the operations and/or capital projects of other funds, In 2016 the General Fund supported the operations of the Street and Pool Funds.

K. Endowments

1. **Cemetery Endowment Care Trust Fund** – codified in Chapter 2.70, section 090 of the Enumclaw Municipal Code, established in 1958, and revised by Ordinance 1879 in 1996. Fund was established to support long-term maintenance of the cemetery once it is fully completed in terms of lot sales. Lot sales and investment earnings provide the revenue source for this fund. Ten percent of the gross sale price of each cemetery plot or mausoleum niche is deposited in the fund for endowment care and upkeep of the cemetery. The principle of the trust is kept intact and not diminished, except it may be used for expansion of the mausoleum.

**Schedule of Revenues, Expenditures and Changes in Fund Balances
Cemetery Endowment Fund
For the Year Ended December 31, 2016**

Operating Revenues	\$ 1,862
Operating Expenditures	<u>-</u>
Net Change in Fund Balance	1,862
Fund Balance Beginning	<u>453,537</u>
Fund Balance Ending	<u><u>\$ 455,399</u></u>

2. **Richard P. Lafromboise Memorial Fund** – was established in 1987. The City received \$100,000 from the estate of Clarence B. Lafromboise, to be held in trust. The net income is to be used for such library purposes as the City Council, acting as trustees for the fund, deem proper.

Schlotfeldt Library Fund – was established in 1963 to account for donations and related earnings from the Schlotfeldt family to support the pioneer history of the City. The fund is dedicated to the maintenance of the historical library collection. In 2012 the collection was moved to the Historical Society when the City Library annexed to KCLS: however, the Fund monies remain with the City.

**Schedule of Revenues, Expenditures and Changes in Fund Balances
Library Trust & Endowment Funds
For the Year Ended December 31, 2016**

	<u>Scholtfeldt</u>	<u>Lafromboise</u>
Operating Revenues	\$ 108	\$ 517
Operating Expenditures	<u>-</u>	<u>1,174</u>
Net Change in Fund Balance	108	(657)
Fund Balance Beginning	<u>26,216</u>	<u>125,796</u>
Fund Balance Ending	<u>\$ 26,324</u>	<u>\$ 125,139</u>

L. Special Items

- a. The YBARS assets are reported in the Water Fund; however, the debt related to this asset is reported in Debt Fund 215. The project was funded through a combination of a low interest loan, a grant and an LID, \$38,648. The Wastewater Fund purchased a vehicle from the Seized Asset Fund for \$15,000. The City is working with Eden to correct the entry in the system, as the liability was recorded but net position wasn't properly adjusted.

M. Prior Period Adjustment

- a. The city implemented GASB 68 in fiscal year 2015. Contributions to the PERS 1,2, & 3 pension plans were overstated by \$89,161 in the Governmental Activities and \$64,655 in the Business-type Activities.
- b. The City received two Drinking Water State Revolving Fund loans in 2013 for the Water Reservoir and Water Improvement projects. As of 12/31/2016 the projects were on-going. The City recorded the loan liability beginning in 2016; therefore, \$618,527 of prior year loan receipts were booked in the Water Fund as prior period adjustments.
- c. In the Wastewater Fund, the City expensed \$212,432 of prior year capital expenditures that had been recorded as Construction in Progress. It was determined that the project did not qualify as a capital asset.

N. Construction and Significant Commitments

- a. The City has a City-Wide Pavement Preservation project on-going, funded through the Transportation Benefit District's sales tax and license fees, as well as a GO Bond. In addition, the City has two projects in the Water Fund for the Water Reservoir and Water Improvements, both funded through Drinking Water State Revolving Fund Loans.

O. Significant Events

- a. The City refunded the 2011 Revenue Bond in 2017 and added \$2MM of new money to the issue to fund Wastewater Treatment Plant upgrades.

NOTE 5 – Industrial Development Corporation of the City of Enumclaw

In 1983 the City Council of the City of Enumclaw authorized the establishment of the Industrial Development Corporation of the City of Enumclaw (Ord. No. 1427), a public corporation whose purpose is to issue tax-exempt non-recourse revenue bonds to finance industrial development within the corporate boundaries of the City. The corporation may construct and maintain industrial facilities, which it can lease or sell to industrial users. Revenue bonds issued by the corporation are payable from revenues derived as a result of the industrial development facilities funded by the revenue bonds. The bonds are not a liability or contingent liability of the City or a lien on any of its properties or revenues other than industrial facilities for which they are used.

The Industrial Development Corporation of the City of Enumclaw has no tax-exempt non-recourse revenue bonds outstanding as of December 31, 2016.

City of Enumclaw Schedule of Proportionate Share of the Net Pension Liability PERS Plan 1 As of December 31, Last 10 Fiscal Years*			
		2015	2016
Enumclaw's proportion of the net pension liability (asset)	%	0.040327%	0.039581%
Enumclaw's proportionate share of the net pension liability	\$	2,109,477	2,125,686
TOTAL			
Enumclaw's covered employee payroll	\$	71,935	66,590
Enumclaw's proportionate share of the net pension liability as a percentage of covered employee payroll	%	2932.46%	3192.18%
Plan fiduciary net position as a percentage of the total pension liability	%	59.10%	57.03%

Schedule of Proportionate Share of the Net Pension Liability PERS Plan 2&3 As of December 31, Last 10 Fiscal Years*			
		2015	2016
Enumclaw's proportion of the net pension liability (asset)	%	0.046989%	0.456180%
Enumclaw's proportionate share of the net pension liability	\$	1,678,944	2,296,830
TOTAL			
Enumclaw's covered employee payroll	\$	4,247,723	4,353,048
Enumclaw's proportionate share of the net pension liability as a percentage of covered employee payroll	%	39.53%	52.76%
Plan fiduciary net position as a percentage of the total pension liability	%	89.20%	85.82%

Schedule of Proportionate Share of the Net Pension Liability LEOFF 1 As of December 31, Last 10 Fiscal Years*			
		2015	2016
Enumclaw's proportion of the net pension liability (asset)	%	0.014399%	0.014415%
Enumclaw's proportionate share of the net pension liability	\$	(173,540.00)	(148,516.00)
TOTAL	\$		
Plan fiduciary net position as a percentage of the total pension liability	%	127.36%	123.74%

Schedule of Proportionate Share of the Net Pension Liability		
LEOFF 2		
As of December 31,		
Last 10 Fiscal Years*		

		2015	2016
Enumclaw's proportion of the net pension liability (asset)	%	0.051214%	0.049094%
Enumclaw's proportionate share of the net pension liability	\$	(526,377.00)	(285,545.00)
LEOFF 2 employers only - State's proportionate share of the net pension liability (asset) associated with the employer			
	\$		
TOTAL	\$		
Enumclaw's covered employee payroll	\$	1,526,966	1,501,869
Enumclaw's proportionate share of the net pension liability as a percentage of covered employee payroll	%	-34.47%	-19.01%
Plan fiduciary net position as a percentage of the total pension liability	%	111.67%	106.04%

Schedule of Proportionate Share of the Net Pension Liability		
PSERS		
As of December 31,		
Last 10 Fiscal Years*		

		2015	2016
Enumclaw's proportion of the net pension liability (asset)	%	0.090881%	0.095247%
Enumclaw's proportionate share of the net pension liability	\$	16,588	40,478
TOTAL	\$		
Enumclaw's covered employee payroll	\$	286,774	346,941
Enumclaw's proportionate share of the net pension liability as a percentage of covered employee payroll	%	5.78%	11.67%
Plan fiduciary net position as a percentage of the total pension liability	%	95.08%	90.41%

City of Enumclaw
Schedule of Employer Contributions
PERS 1
As of December 31

	<u>2015</u>
Statutorily or contractually required contributions \$	7,385
Contributions in relation to the statutorily or contractually required contributions \$	<u>(7,384)</u>
Contribution deficiency (excess) \$	<u>0</u>
Covered employer payroll \$	71,935
Contributions as a percentage of covered employee payroll %	10.27%

City of Enumclaw
Schedule of Employer Contributions
PERS 2&3
As of December 31

	<u>2015</u>
Statutorily or contractually required contributions \$	433,746
Contributions in relation to the statutorily or contractually required contributions \$	<u>(433,746)</u>
Contribution deficiency (excess) \$	<u>0</u>
Covered employer payroll \$	4,247,723
Contributions as a percentage of covered employee payroll %	10.21%

City of Enumclaw
Schedule of Employer Contributions
LEOFF 2
As of December 31

	<u>2015</u>
Statutorily or contractually required contributions	\$ 79,860
Contributions in relation to the statutorily or contractually required contributions	\$ (79,860)
Contribution deficiency (excess)	<u>0</u>
Covered employer payroll	\$ 1,526,966
Contributions as a percentage of covered employee payroll	% 5.23%

City of Enumclaw
Schedule of Employer Contributions
PSERS
As of December 31

	<u>2015</u>
Statutorily or contractually required contributions	\$ 31,779
Contributions in relation to the statutorily or contractually required contributions	\$ (31,779)
Contribution deficiency (excess)	<u>0</u>
Covered employer payroll	\$ 286,774
Contributions as a percentage of covered employee payroll	% 11.08%

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

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Passed through to Subrecipients	Note
				From Pass- Through Awards	From Direct Awards	Total		
Bureau Of Justice Assistance, Department Of Justice	Bulletproof Vest Partnership Program	16.607	NA	-	6,019	6,019	-	
Highway Planning and Construction Cluster								
Federal Highway Administration (fhwa), Department Of Transportation (via WA State Department of Transportation)	Highway Planning and Construction	20.205	STPUS-0410 (50)	145,418	-	145,418	-	2
Total Highway Planning and Construction Cluster:				145,418	-	145,418	-	
Drinking Water State Revolving Fund Cluster								
Office Of Water, Environmental Protection Agency	Capitalization Grants for Drinking Water State Revolving Funds	66.468	DM13-952-139	-	3,647,137	3,647,137	-	3
Office Of Water, Environmental Protection Agency	Capitalization Grants for Drinking Water State Revolving Funds	66.468	DM13-952-175	-	912,361	912,361	-	3
Total Drinking Water State Revolving Fund Cluster:				-	4,559,498	4,559,498	-	
Total Federal Awards Expended:				145,418	4,555,517	4,710,935	-	

The accompanying notes are an integral part of this schedule.

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE 1 – BASIS OF ACCOUNTING

This schedule is prepared on the same basis of accounting as the City's financial statements. The City uses the modified accrual basis of accounting.

NOTE 2 – PROGRAM COSTS

The amounts shown as current year expenditures represent only the federal grant portion of the program costs. Entire program costs, including the City's portion, are more than shown.

NOTE 3– FEDERAL LOANS

The City was approved by the EPA for loans to upgrade the water system and reservoirs. The amount listed is the amount drawn on the loans in fiscal year 2016 only. There are no continuing compliance requirements, therefore the total loans received to date are not reported on the SEFA. Both the current and prior year loans are reported on the city's Schedule of Liabilities.

NOTE 4 – INDIRECT COST RATE

The City has not elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

CORRECTIVE ACTION PLAN FOR FINDINGS REPORTED UNDER UNIFORM GUIDANCE

City of Enumclaw

King County

January 1, 2016 through December 31, 2016

This schedule presents the corrective action planned by the auditee for findings reported in this report in accordance with Title 2 *U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). The information in this schedule is the representation of the City of Enumclaw.

Finding ref number: 2016-001	Finding caption: The City's internal controls over accounting and financial statement preparation were inadequate to ensure accurate and complete financial reporting.
Name, address, and telephone of auditee contact person: Stephanie McKenzie 1339 Griffin Avenue Enumclaw WA (360) 615-5629	
Corrective action the auditee plans to take in response to the finding: <i>The City will implement procedures to ensure all debt received is properly recorded in the general ledger and reported accurately in the financial statements. The City maintains a master spreadsheet of all debt issuances. New debt issues will immediately be recorded on the master spreadsheet and the general ledger. Supporting documentation for debt issues will be maintained in a binder within the Finance Department. The master spreadsheet will be reconciled to the general ledger during year-end processing. The general ledger balances will then be reported in the financial statements. The Accountant will be assigned to ensure the master spreadsheet, general ledger, and financial statements all reconcile. The Finance Director will review the reconciliation for accuracy and completeness.</i> <i>The capital asset accountant will work with departments to ensure they are educated on the City's policies and procedures regarding capital definitions, capital expenditures and reporting capital assets. At year-end, the accountant will review each capital item reported by the departments via spreadsheets to ensure they are true capital assets as defined by GAAP. Assets that do not meet the definition will be expensed. Once the Accountant has finished their review, the Finance Director will review all capital assets again prior to the Accountant recording in the general ledger to verify they meet the definition of a capital asset.</i>	

The City will hire an independent third party to review the financial statements and ensure the statements and notes are prepared in accordance with GASB standards and GAAP principles. In addition, the City will ensure key staff receive annual training on BARS and GASB updates. The above procedures will be implemented by the end of fiscal year 2017.

Anticipated date to complete the corrective action: 12/31/2017

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