



**Office of the Washington State Auditor**  
**Pat McCarthy**

# **Financial Statements and Federal Single Audit Report**

## **City of Federal Way**

**King County**

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

**Published September 29, 2017**

**Report No. 1019828**





**Office of the Washington State Auditor**  
**Pat McCarthy**

September 29, 2017

Mayor and City Council  
City of Federal Way  
Federal Way, Washington

**Report on Financial Statements and Federal Single Audit**

Please find attached our report on the City of Federal Way'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

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## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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

#### Financial Statements

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

##### Internal Control over Financial Reporting:

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

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

#### Federal Awards

##### Internal Control over Major Programs:

- *Significant Deficiencies:* We reported no deficiencies in the design or operation of internal control over major federal programs that we consider to be significant deficiencies.
- *Material Weaknesses:* We identified 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 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>
14.248	Community Development Block Grants – Section 108 Loan Guarantees

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

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

## **SECTION II – FINANCIAL STATEMENT FINDINGS**

None reported.

## **SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

See finding 2016-001.

## SCHEDULE OF FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

### City of Federal Way King County January 1, 2016 through December 31, 2016

**2016-001    The City did not have evidence of adequate internal controls to ensure compliance with federal procurement and suspension and debarment requirements.**

**CFDA Number and Title:** Community Development Block  
Grants – Section 108 Loan  
Guarantees

**Federal Grantor Name:** U.S. Department of Housing and  
Urban Development

**Federal Award/Contract Number:** B-13-MC-53-0015

**Pass-through Entity Name:** NA

**Pass-through Award/Contract Number:** NA

**Questioned Cost Amount:** \$0

#### ***Background***

During fiscal year 2016, the City of Federal Way spent \$2,925,000 in Section 108 Loan Guarantee monies to finance a Performing Arts and Entertainment Center (PAEC).

The PAEC project began in 2012 when the City awarded a design build contract. At that time, there were no federal dollars associated with this project. In 2014, the City terminated the design build contract and entered into six personal service contracts, five of which were with established vendors on this project.

## *Description of Condition*

### Procurement

Federal grant regulations require recipients to follow the more restrictive of state or federal bid laws. Federal procurement requirements are more restrictive and require either sealed bids or a competitive proposal process to be used for personal service contracts (such as for consultants) over the simplified acquisition threshold, which was \$100,000 based on the grant award date.

All of the federal grant expenditures reported for 2016 were for payments on the six personal service contracts. Two of the six personal service contracts were for less than \$100,000, thereby requiring a less formal procurement process. However, the remaining four personal service contracts exceeded federal thresholds, requiring a formal competitive process that involved soliciting proposals, evaluating all respondents and awarding the contract to the best firm.

The City did not perform a competitive process for two of the six contracts, which were for \$2,347,969 and \$1,400,000 when awarded because the contractors were part of the original design and build contract. Although the City provided some information on the competitive award process on the remaining four contracts, we found insufficient documentation to demonstrate federal procurement requirements had been met.

We consider this deficiency in internal controls to be a material weakness. The issue was not reported as a finding in the prior audit.

### Suspension and Debarment

Federal regulations prohibit grant recipients from contracting with or making sub-awards to parties suspended or debarred from doing business with the federal government. The City must verify that all contractors receiving \$25,000 or more in federal funds have not been suspended or debarred or otherwise excluded. The City can obtain a written certification from the contractor or insert a clause into the contract where the contractor states it is not suspended or debarred. Alternatively, the City may review the federal Excluded Parties List System (EPLS) issued by the U.S. General Services Administration. This requirement must be met before entering into the contract.

The City has a policy requiring project managers to check for suspension and debarment on the EPLS website. However, for all four contracts over \$25,000, the City was unable to provide documentation to demonstrate the contractors' status was verified before the contracts were awarded.

We consider this deficiency in internal controls to be a material weakness. The issue was not reported as a finding in the prior audit.

### ***Cause of Condition***

#### Procurement

City staff were not aware that federal requirements regarding procurement of personal services are more restrictive than state requirements and regardless of the contractor being part of the original contract or the additional cost the federal guidelines require the process to be followed.

#### Suspension and Debarment

The City was aware of the requirement to verify the suspension and debarment status of its contractors. However, it experienced turnover in staff responsible for this project, and the copies of the EPLS reviews performed could not be located.

### ***Effect of Condition and Questioned Costs***

Without adhering to the requirements for competitive procurement, the City cannot demonstrate it selected the most qualified firm, allowed for full and open competition or solicited the best price for the service. Further, the City cannot be sure it did not use federal funds to contract with debarred or suspended parties. Any payments to an ineligible party are unallowable and would be subject to recovery by the funding agency. However, the expenditures for the services were allowable under the federal program and our audit found the contractors were not debarred or suspended. As a result, we are not questioning these costs.

### ***Recommendations***

We recommend the City strengthen its internal controls to ensure it:

- Properly procures services paid for with federal funds and retains documentation to demonstrate compliance with federal procurement requirements. This includes the rationale for the method of procurement, the selection of contract type, contractor selection or rejection, and the basis for the contract price.
- Verifies contractors are eligible to participate in federal programs and retains supporting documentation to demonstrate compliance with suspension and debarment requirements

## ***City's Response***

*We appreciate SAO comments and its work over the years. The amount paid to the contractor is neither questioned, nor considered inappropriate. The City prides itself on being efficient and prudent with tax payer funds. The City operates under a system of accounting and internal controls that are concerned with safeguarding of assets and the reliability of financial records. The definition of accounting control assumes reasonable, but not absolute assurance that the objectives expressed in it will be accomplished by the system. The concept of reasonable assurance recognizes that the cost of internal control should not exceed the benefits expected to be derived.*

*Regarding **procurement**, the City decided to utilize the design-bid-build process to save tax payers money as the design process was nearing completion under the originally competitively bid upon design-build contract. The City chose to continue to use LMN Architects, the subcontractor working for Lorax Partners, the winner of design-bid process. It would have cost the City more tax payer's funds to continue the "design and build" process. The City opted to employ the most prudent plan by stopping the design-build process and build the facility under a competitive construction bid process. By electing to sign with the subcontractor already working with Lorax Partners, the City did not incur additional costs to rebid the design a new firm would have cost the City more money to familiarize itself with the project, or to redo work already performed. This was the most judicious way of spending tax payer's funds. If we had gone back out for rebidding the cost would have outweighed the benefit which is the essence of our reasonable assurance of our internal control. The City would have spent additional money just to fulfil the requirement without any proportionate benefit to the citizens. This decision and process was included as part of background note included in the contract with LMN which SAO audited in 2015 and had no problem with it.*

*Regarding the **suspension and debarment**, the City's policy requires the project manager to check for suspension and debarment on bid award winners. The policy also requires the printout of the review. We have adequate control in place to ensure this guideline is followed but due to changes in the leadership of construction management, we are not able to locate the original printed copy. A copy was printed after the award. Over the course of design and construction we had three changes (4 people) in project manager. In this case as well it is not determined that money was inappropriately spent, neither was the contractor suspended or debarred, and there is evidence of no debarment and no suspension even though the copy printed out before the award was made cannot be found but we have a printed copy after the award. As trustees of the public fund we should*

*attempt to weigh the cost of our decisions against the benefit to the citizens we serve and the cost of this finding is more than the potential loss or gain to the citizens.*

### ***Auditor's Remarks***

We appreciate the helpfulness and actions taken by City staff during the audit. We reviewed the LMN contract in the prior audit; however, there was no federal participation at that time. Additionally, when these contracts were awarded, the City did not appear to consider federal requirements. Although we recognize the City's efforts to weigh costs against benefits, its internal controls for procurement must provide reasonable assurance of complying with federal requirements. We will follow up on the City's federal compliance during the next audit.

### ***Applicable Laws and Regulations***

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its *Codification of Statements on Auditing Standards*, section 935, paragraph 11.

*U.S. Office of Management and Budget (OMB) Circular A-102, Grants and Cooperative Agreements with State and Local Governments, Section .36* establishes procurement requirements, including methods of procurement for personal service contracts.

*Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance), section 200.303 Internal controls*, establishes internal control requirements for management of Federal awards to non-Federal entities.

*Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance), section 200.516 Audit findings*, establishes reporting requirements for audit findings.

*Title 2 U.S. Code of Federal Regulations (CFR) Part 180, OMB Guidelines to Agencies on Governmentwide Debarment and Suspension (Nonprocurement)*, establishes non-procurement debarment and suspension regulations implementing Executive Orders 12549 and 12689.

**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 Federal Way  
King County  
January 1, 2016 through December 31, 2016**

Mayor and City Council  
City of Federal Way  
Federal Way, 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 Federal Way, 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 June 14, 2017.

**INTERNAL CONTROL OVER FINANCIAL REPORTING**

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

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

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

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

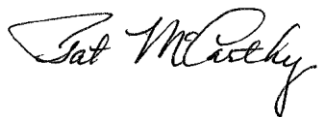
## COMPLIANCE AND OTHER MATTERS

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

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

## PURPOSE OF THIS REPORT

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



Pat McCarthy

State Auditor

Olympia, WA

June 14, 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 Federal Way  
King County  
January 1, 2016 through December 31, 2016**

Mayor and City Council  
City of Federal Way  
Federal Way, Washington

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

We have audited the compliance of the City of Federal Way, 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.

### **Other Matters**

The results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying Schedule of Federal Award Findings and Questioned Costs as Finding 2016-001. Our opinion on each major federal program is not modified with respect to these matters.

### **City's Response to Findings**

The City's response to the noncompliance findings identified in our audit is described in the accompanying Schedule of Federal Award Findings and Questioned Costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

## **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 over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control over compliance, as described in the accompanying Schedule of Federal Award Findings and Questioned Costs as Finding 2016-001, to be a material weakness.

### **City's Response to Findings**

The City's response to the internal control over compliance findings identified in our audit is described in the accompanying Schedule of Federal Award Findings and Questioned Costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

### **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 8, 2017

# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

## City of Federal Way King County January 1, 2016 through December 31, 2016

Mayor and City Council  
City of Federal Way  
Federal Way, 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 Federal Way, 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 20.

### 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 Federal Way, 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 Utility Tax funds, 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 22 through 32 and pension plan information on pages 79 through 81 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Supplementary and Other Information***

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

### **OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS**

In accordance with *Government Auditing Standards*, we have also issued our report dated June 14, 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

June 14, 2017

## **FINANCIAL SECTION**

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

### **REQUIRED SUPPLEMENTARY INFORMATION**

Management's Discussion and Analysis – 2016

### **BASIC FINANCIAL STATEMENTS**

Statement of Net Position – 2016

Statement of Activities – 2016

Balance Sheet – Governmental Funds – 2016

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

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

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

Statement of Revenues, Expenditures and Changes in Fund Balance – Budget to Actual –  
Street Fund – 2016

Statement of Revenues, Expenditures and Changes in Fund Balance – Budget to Actual –  
Utility Tax Fund – 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

Notes to Financial Statements – 2016

### **REQUIRED SUPPLEMENTARY INFORMATION**

Schedule of the City's Proportionate Share of the Net Pension Liability – PERS 1,  
PERS 2/3, LEOFF 2 – 2016

Schedule of Employer Contributions – PERS 1, PERS 2/3, LEOFF 2 – 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

As management of the City of Federal Way, we offer readers of our annual financial report a narrative overview, and an analysis of the financial activities of the City of Federal Way for the fiscal year ended December 31, 2016. We encourage readers to consider the information in conjunction with the preceding letter of transmittal, the financial statements and notes to the financial statements that follow.

### FINANCIAL HIGHLIGHTS

- The total assets plus deferred outflows of the City of Federal Way exceeded its liabilities plus deferred inflows at December 31, 2016 by \$569.0 million (Net Position). Capital Assets (net of depreciation and related debt) account for 87.9% of this amount with a value of \$499.9 million. Of the remaining net position of \$69.1 million, \$47.7 million may be used to meet the government's ongoing obligations to citizens and creditors, without legal restriction while the \$21.4 million are restricted for specific use. (See page 27).
- The City's total net position increased by \$13.7 million, or 2.5% above 2015 as referenced on page 15. Governmental activities increased by \$14.3 million or 2.9% while business-type activities decreased by \$0.6 million or 0.9%. The increase in Governmental activities is primarily due to the increase in capital assets (See note 8 on page 56) and the decrease business-type activities is primarily due to a transfer to Transportation capital fund. More detail is described in the analysis below.
- Net investment in capital assets increased by \$16.6 million (See note 8 on page 56) and unrestricted net position decreased by \$4.1 million respectively under 2015 as referenced on page 15.
- Restricted Net Position increased by \$1.2 million or 5.4% and is primarily for funding of capital projects and debt service. (page 15)
- Long term liabilities increased by \$4.6 million or 9.7% primarily due to the addition of \$2.6 million in net pension liability (see note 11 on page 66) for GASB 68 pension reporting, \$2.9 million addition of 2016 Section 108 HUD Loan for Performing Arts & Event Center, offset by long term debt decrease of \$0.9 million for General obligation debt, and public works trust fund loans that decreased by \$0.1 million during the current fiscal year. (See Note 11 on page 66).
- Governmental fund balances at year-end were \$49.3 million, a \$2.4 million or 5% decrease from the prior year. Of the \$49.3 million, \$13.8 million, or 28.0% of the governmental fund balance is unassigned and available to fund ongoing activities. The remaining \$35.5 million is earmarked for debt service, paths & trails reserve, hotel/motel lodging tax, police special funds, petty cash/change funds, court trust fund, advance travel, strategic opportunities reserve, streets maintenance and capital projects. (See page 30 and page 50).
- Unrestricted or Unassigned fund balance in the General Fund was \$13.8 million, which decreased by \$0.6 million or 4.0% from the prior year.

### OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City of Federal Way's *basic financial statements*. The basic financial statements are comprised of three components:

- 1) government-wide financial statements,
- 2) fund financial statements, and
- 3) notes to the financial statements.

In addition to the required components, the City's annual report also includes other supplementary information. The first set of supplementary information is the Combining Statements. These provide Balance Sheets, Statement of Revenues, Expenditures, and Changes in Fund Balances with Budget to Actual Comparisons, Statement of Net Position, and Cash Flows for all proprietary and internal service funds. The other set of supplementary information is the Statistical Section. This section provides a one to ten-year view of the City's revenues, expenditures, debt obligations and capacity, the City's largest taxpayers, and those entities with the largest employment within the City of Federal Way. This section provides a long-term perspective on the City's economy.

## Government-wide Financial Statements

The **government-wide financial statements** are designed to provide readers with a broad overview of the City of Federal Way's finances, in a manner similar to a private-sector business.

- A) The **statement of net position** presents information on all of the City of Federal Way's assets plus deferred outflows and liabilities plus deferred inflows, with the difference between the two reported as *net position*. This statement serves a purpose similar to that of a balance sheet in private business. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.
- B) The **statement of activities** presents information showing how the City'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 the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City of Federal Way 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 Federal Way include law enforcement and public safety, construction and maintenance of streets, building inspection, municipal court services, jail services, community planning and development services, parks and recreation facilities, other community services and general administration. The business-type activities of the City include surface water management and the control and operation of Dumas Bay Centre, a multi-use facility that offers business and retreat accommodations, recreation and cultural arts classes, and a performing arts facility.

The City has no separately identified component units included in the government-wide financial statements. The City has reported its investment in two governmental joint ventures: Valley Communications Center and South Correctional Entity (SCORE). Descriptions of these joint ventures are found in Note 14 of the notes to the financial statements.

The government-wide financial statements can be found immediately following this MD&A.

## Fund Financial Statements

The annual financial report includes **fund financial statements** in addition to the government-wide financial statements. While the government-wide statements present the City's finances based on the type of activity, general government versus business-type, the fund financial statements are presented by fund type such as the general fund, special revenue funds, and proprietary funds. A fund is a specific fiscal and accounting entity with a self-balancing set of accounts used to account for specific activities or to meet certain objectives. Funds are often set up in accordance with special regulations, restriction or limitations. The City of Federal Way uses fund accounting to ensure and show compliance with finance-related legal requirements. The City's funds are divided into two categories: governmental funds and proprietary funds.

## Governmental Funds

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for 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 expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City of Federal Way maintains twenty individual governmental funds. The City's seven major governmental funds, the general fund, street fund, utility tax fund, debt service fund, downtown redevelopment fund, transportation fund, and performing arts & events center fund are presented separately in the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances. The remaining governmental funds are combined into a single column labeled non-major governmental funds. Individual fund data for each of the non-major governmental funds can be found in combining statements later on in this report.

The City maintains control over its operating funds through the adoption of the biennial budget. Budgets are adopted at the fund level and according to state law. A budgetary comparison statement is presented for the General, Street, and Utility Tax Fund as a basic financial statement. The basic governmental fund financial statements can be found on pages after the government-wide statements of this report.

### Proprietary Funds

The City of Federal Way maintains two types of *proprietary funds*. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide statements. The City uses enterprise funds to account for its Surface Water Management and the Dumas Bay Centre. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for its risk management, information systems, mail and duplication services, fleet of vehicles and motorized equipment, facilities management, health insurance, and unemployment services.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Surface Water Management fund and for the Dumas Bay Centre. The internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data is provided in the form of combining statements elsewhere in this report.

The proprietary fund financial statements can be found following the governmental fund statements in this report.

### Notes to the Financial Statements

The notes provide additional information that is essential to the full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found immediately following the fund financial statements.

### Other Information

In addition to the basic financial statements and accompanying notes, this report also presents the combining statements for non-major governmental funds, internal service funds, and capital assets of governmental funds.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

This section provides analysis of the government-wide financial statements including long-term and short-term information about the City's overall financial condition. The following tables address the financial results of the City as a whole.

### CONDENSED STATEMENT OF NET POSITION As of December 31, 2016 and 2015

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Current and other assets	\$ 97,131,758	\$97,783,028	\$ 7,172,823	\$7,902,230	\$ 104,304,581	\$ 105,685,258
Capital assets and CIP, net of accum. depreciation	463,159,714	444,173,145	59,348,005	59,382,657	522,507,719	503,555,802
Total assets	560,291,472	541,956,173	66,520,829	67,284,887	626,812,301	609,241,060
Deferred outflows of resources	3,934,973	2,144,762	307,122	197,021	4,242,095	2,341,783
Total deferred outflows of resource	3,934,973	2,144,762	307,122	197,021	4,242,095	2,341,783
Long-term liabilities	49,981,388	45,519,660	1,962,748	1,809,878	51,944,136	47,329,538
Other liabilities	9,162,665	5,190,221	615,837	638,452	9,778,502	5,828,673
Total liabilities	59,144,053	50,709,881	2,578,585	2,448,330	61,722,639	53,158,211
Deferred inflows of resources	319,074	2,939,368	28,541	205,131	347,615	3,144,499
Total deferred inflows of resources	319,074	2,939,368	28,541	205,131	347,615	3,144,499
Net position:						
Net investment in:						
capital assets	440,815,201	424,245,625	59,059,646	58,998,176	499,874,847	483,243,801
Restricted	21,372,596	20,193,214	18,438	15,906	21,391,034	20,209,120
Unrestricted	42,575,521	46,012,847	5,142,741	5,814,364	47,718,262	51,827,211
Total net position	\$ 504,763,318	\$ 490,451,686	\$ 64,220,825	\$ 64,828,446	\$ 568,984,143	\$ 555,280,132

## **Analysis of Net Position**

Total net position of the primary government of \$569.0 million at December 31, 2016 increased by \$13.7 million or 2.5% compared to December 31, 2015. The increase is due to governmental type activities increase of \$14.3 million, offset by business-type activities decrease of \$0.6 million. More detail on the changes in net position are described below under Governmental and Business-Type activities.

The largest component of the City's net position, 88% or \$499.9 million, is net investment in capital assets. These capital assets such as land, streets, trails, parks, police vehicles, and parks equipment are used to provide services to the citizens. Consequently, these assets are not available to sell and convert to cash for future spending.

Approximately 2.9% or \$16.7 million (page 27) of the total net position of the city are restricted for use on capital projects or are earmarked for current approved capital projects. Some of the major capital projects the funds are being used for include the trail and pedestrian access improvements, SR99 HOV Lanes Phase 5 project, South 356<sup>th</sup> Street SR99 – SR161 project, Traffic safety improvement projects, and Performing Arts and Event Center (PAEC). The City attempts to fund capital construction projects on a pay-as-you-go basis, aggressively pursuing grant funding and cost sharing with developers to construct large projects in the City that impact the economy and transportation systems.

The remaining balance of restricted net position of \$4.7 million are for: \$0.26 million for police special funds, and court trust, \$0.02 million for steel lake and north lake management districts, \$0.03 million for prepaid insurance/debt and flex plan, \$0.52 million for peg and franchise fees for educational and governmental access services, \$0.74 million for lodging tax, \$0.57 million for paths and trails, \$0.03 million for Community Development Block Grant, and \$2.51 million for debt service.

The unrestricted business-type activities portion of \$5.1 million; \$4.6 million can only be spent on surface water management and the remaining \$0.5 million on improvements to Dumas Bay Centre and Knutzen Family Theatre. Maintenance of catch basins, pump stations, storm drain flushing, and other capital construction projects such as S 356<sup>th</sup> Street RDF Retrofit are examples of utility activities.

Other functions of the City may access the remaining \$42.6 million in governmental activities unrestricted net position to meet ongoing obligation to citizens and creditors. Examples of other City obligations which net position may be used for are public safety, economic development, parks maintenance, ongoing street maintenance, and committed funds for capital projects.

At the end of the fiscal year, the City of Federal Way reported positive balances in all three categories of net position, for the government as a whole, as well as for the separate governmental and business-type activities.

### **Governmental Activities:**

Current and other assets decreased by \$0.7 million or 0.7% primarily due to a decrease of \$2.0 million in net pension asset due to GASB 68 pension reporting, a decrease of \$1.6 million in cash and cash equivalents due to decrease of cash for ongoing construction of PAEC offset by an increase in Downtown Redevelopment Fund from receipt of LIFT sales tax, offset by an increase of \$1.0 million in accounts receivable comprised of \$0.9 million in receivables for utility work performed by the City for local utilities on Transportation capital projects and \$0.1 million in Police off-duty security receivables, and due from other government of \$2.1 million due to additional grant funds from Federal and State agencies being requested for reimbursement. The remainder \$0.2 million is primarily for a reduction in investment in joint venture and taxes receivable.

Capitals assets and CIP, net of accumulated depreciation increased by \$19.0 million or 4.3% primarily due to the net addition of assets in the current year of \$19.0 million (See Note 8 on page 56). This is primarily due to a net addition of \$19.9 million in construction in progress for PAEC, transportation infrastructure projects that include roads, sidewalks, streetlights, and traffic signals for projects such as SR99 HOV Lanes Phase V and South 356<sup>th</sup> Street SR99 to SR161. In addition, \$1.6 million in land was purchased for transportation projects, and \$0.4 million in land was dedicated to the City for right-of-way purposes. Improvements Other than Buildings net increase of \$0.2 million is due to the addition of Town Square Park, offset by current year depreciation. Machinery & Equipment net increase of \$1.0 million is due to the addition of playground equipment at parks, Information Technology equipment, and vehicles for the City. Buildings net decrease of \$1.7 million is primarily due to current year depreciation for Buildings, offset by addition of buildings at Town Square Park. Infrastructure net decrease of \$2.5 million is primarily due to current year depreciation for infrastructure, offset by the addition of roads, streetlights, sidewalks, traffic signals, for 1<sup>st</sup> Ave S at S 328<sup>th</sup> St, and S 304<sup>th</sup> St at 28<sup>th</sup> Ave S Intersection.

Deferred outflows of resources increased by \$1.8 million for governmental activities due to lower than expected earnings on pension plan investments for GASB 68 state sponsored pension plans. (See Note 9 on page 58).

Long-term liabilities increased by \$4.5 million or 9.8% due to the addition of \$2.3 million net pension liability for GASB 68 state sponsored pension plan, \$2.9 million addition of 2016 Section 108 HUD Loan for Performing Arts & Event Center, offset

by a \$0.9 million reduction primarily due to paying down the balance on GO Bond, and SCORE facility. (See Note 11 on page 66).

Other liabilities increased by \$4.0 million or 76.5% primarily due to additional liabilities at the end of the year of \$3.3 million in accrued vouchers payable comprised of \$0.9 million for Performing Arts & Event Center construction, \$1.5 million for Transportation capital projects such as SR99 HOV Lanes Phase V project, \$0.3 million for General Fund department services, and \$0.6 million for Information Technology and Fleet & Equipment services, retainage payable increase of \$0.7 million comprised of Performing Arts & Event Center retainage on construction of \$0.6 million and Transportation and overlay projects retainage of \$0.1 million.

Deferred inflows of resources decreased by \$2.6 million for governmental activities due to lower than expected earnings on pension plan investments for GASB 68 state sponsored pension plans. (See Note 9 on page 58).

Net investments in capital assets increased by \$16.6 million or 3.9% primarily due to an increase capital assets and CIP, net of accumulated depreciation explained in the above capital assets description (See note 8 and note 15 on pages 56 and 72), offset by an increase in long-term liabilities related to adding Section 108 HUD Loan for the Performing Arts & Event Center.

Restricted net position represents amounts that must be used in accordance with external restrictions, and increased by \$1.2 million or 5.8% from the prior year primarily due to additional restricted funding for capital projects, debt service, peg fees for government access channel under contracts and studies fund (page 81), paths & trails funding, and lodging tax.

The remaining Unrestricted net position decreased by \$3.4 million or 7.5% primarily due to an increase in net pension liability (GASB 68) of \$2.3 million, cash & cash equivalents decrease of \$1.6 million primarily due to ongoing construction of Performing Arts & Event Center, decrease of \$2.6 million in deferred inflow of resources due to lower than expected earnings on pension plan investments, offset by an increase in receivables of \$0.9 million for utility work performed by the City for local utilities on Transportation capital projects, and due from other governments of \$2.1 million for State & Federal grants for Transportation capital projects such as SR99 HOV Lanes Phase V and Sacajawea Safe Routes to Schools.

#### **Business-Type Activities:**

Current and other assets decreased by \$0.7 million or 9.2% primarily due to a decrease in Surface Water Management operations cash and other equivalents of \$1.35 million from operating and capital expenditures exceeding revenues. This is due to additional services and charges for SWM maintenance projects such as Marine Hills conveyance system repairs, additional intergovernmental services and charges for SWM collection fees and Department of Ecology permits, and transfers out to Transportation CIP SR99 Phase V of \$0.97 million. The decrease is offset by an increase in Surface Water Management due from other governments for grants of \$0.37 million. The remainder is primarily due to the addition of receivables for Surface Water Management fees, and addition in Dumas Bay Centre cash due to additional operating revenues from rentals and events in the center.

Capitals assets and CIP, net of accumulated depreciation decreased by \$0.03 million or 0.1% primarily due to a prior period adjustment of \$0.3 million described in Note 15 on page 72, from misclassified construction in progress that should have been classified as repairs and maintenance. In the current year, there was a land addition of \$0.2 million, net construction in progress reduction of \$2.8 million, buildings addition of \$0.9 million, improvements other than buildings addition of \$1.1 million, infrastructure addition of \$1.5 million, machinery and equipment addition of \$0.05 million, and addition of accumulated depreciation of \$0.8 million. (See Note 8 on page 56).

Deferred outflows of resources increased by \$0.1 million for business-type activities due to lower than expected earnings on pension plan investments for GASB 68 state sponsored pension plans. (See Note 9 on page 58).

Long-term liabilities increased by \$0.2 million due to current year GASB 68 adjustment to pension liability of \$0.3 million offset by paying down of Public works trust fund loans. (See Note 9 and 11 on pages 58 and 66).

Other liabilities decreased by \$0.02 million or 3.5% primarily due to having fewer liabilities at the end of the year for Surface Water Management. This is due to fewer invoices for Surface Water Management operations at the end of the year.

Deferred inflows of resources decreased by \$0.2 million for business-type activities due to lower than expected earnings on pension plan investments for GASB 68 state sponsored pension plans. (See Note 9 on page 58).

Net investments in capital assets increased \$0.1 million or 0.1% primarily due to low outstanding balance in Public Works trust fund loan, offset by a prior period adjustment and capital assets added described above.

Unrestricted net position decreased by \$0.7 million or 11.6% primarily due to the decreases in current and other assets described above.



**CHANGES IN NET POSITION**  
**For the Years Ended December 31, 2016 and 2015**

	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Revenues:						
Programs revenues:						
Charges for services	\$ 14,210,158	\$ 14,129,209	\$ 4,900,531	\$ 4,662,995	\$ 19,110,689	\$ 18,792,204
Operating grants & contrib.	5,638,756	6,544,176	68,970	17,108	5,707,725	6,561,284
Capital grants & contrib.	15,863,183	4,508,428	790,033	328,130	16,653,215	4,836,558
General revenues:						
Property taxes	10,539,623	10,460,136	-	-	10,539,623	10,460,136
Sales tax	14,222,497	13,297,086	-	-	14,222,497	13,297,086
Local criminal justice sales tax	2,499,527	2,319,124	-	-	2,499,527	2,319,124
Utility tax	11,902,866	11,796,550	-	-	11,902,866	11,796,550
Real estate excise tax	5,265,138	3,031,159	-	-	5,265,138	3,031,159
Other taxes	477,055	449,964	-	-	477,055	449,964
Other	1,526,995	2,052,748	45,405	24,917	1,572,399	2,077,665
Total Revenue	82,145,796	68,588,580	5,804,937	5,033,150	87,950,733	73,621,730
Expenses:						
General government	4,544,037	4,743,932	-	-	4,544,037	4,743,932
Security of persons & property	36,018,643	32,017,617	-	-	36,018,643	32,017,617
Transportation	12,920,893	13,070,260	-	-	12,920,893	13,070,260
Physical environment	469,237	476,570	-	-	469,237	476,570
Economic environment	3,206,414	2,973,437	-	-	3,206,414	2,973,437
Health and human services	1,501,057	1,618,759	-	-	1,501,057	1,618,759
Culture and recreation	9,373,278	8,959,555	-	-	9,373,278	8,959,555
Interest on long-term debt	433,729	461,763	-	-	433,729	461,763
Surface Water Management	-	-	4,408,225	4,093,534	4,408,225	4,093,534
Dumas Bay Centre	-	-	1,104,971	1,250,161	1,104,971	1,250,161
Total Expenses	68,467,288	64,321,893	5,513,197	5,343,695	73,980,485	69,665,588
Change in net position before transfers	13,678,508	4,266,687	291,740	(310,545)	13,970,248	3,956,142
Transfers	633,124	(17,959)	(633,124)	17,959	(0)	-
Change in net position	14,311,632	4,248,728	(341,384)	(292,586)	13,970,248	3,956,142
Net position - beginning	490,451,686	541,306,481	64,828,447	57,538,943	555,280,133	598,845,424
Prior period adjustment Note 15	-	(45,942,608)	(266,237)	8,906,872	(266,237)	(37,035,736)
Net Effect - Change in Accounting for Pensions	-	(9,160,915)	-	(1,324,784)	-	(10,485,699)
Adjusted net position - beginning	490,451,686	486,202,958	64,562,209	65,121,031	555,013,895	551,323,989
Net position - ending	\$ 504,763,318	\$ 490,451,686	\$ 64,220,825	\$ 64,828,445	\$ 568,984,143	\$ 555,280,131

### **Analysis of the change in net position:**

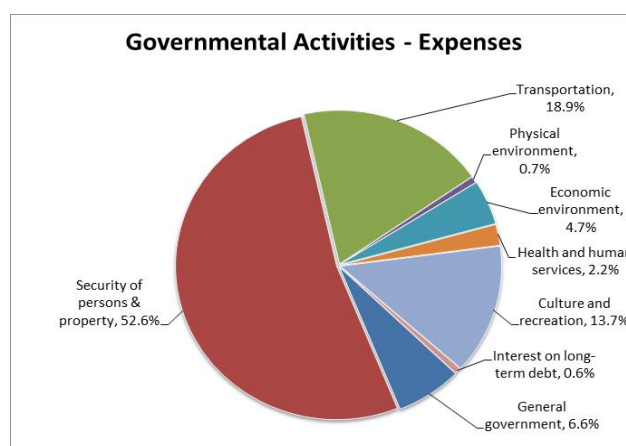
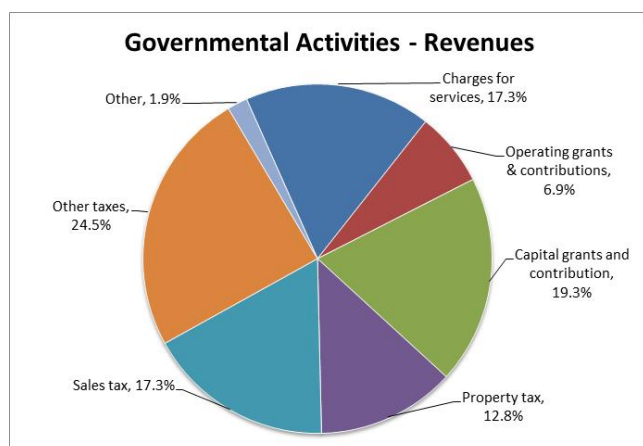
Total government-wide revenues of the primary government increased by \$14.3 million or 19.5% and total expenses increased by \$4.3 million or 6.2% from the prior year. These changes are discussed in more detail below.

### **Governmental Activities:**

Governmental activities contributed \$14.3 million of the total change in net position of \$14.0 million. The prior year change in net position was \$4.2 million. The primary change compared to 2015 is due to the following revenues, and expenses described below.

Total revenues for governmental activities increased \$13.6 million or 19.8%. The increase is primarily due to an increase in capital grants & contributions of \$11.4 million from the addition of \$5.9 million in grants for the Performing Arts & Event Center, reclassifying \$1.0 million of LIFT sales tax, restricted for use on capital infrastructure and parks facilities, to capital grants & contributions from operating grants & contributions, and \$4.4 million in grants for Transportation CIP projects that are in design and construction, increase in real estate excise tax of \$2.2 million, sales tax and criminal justice sales tax of \$1.1 million, property tax of \$0.08 million, utility tax of \$0.1 million, and charges for services of \$0.08 million. This increase is offset by a decrease in other revenue of \$0.5 million primarily due to less private contributions for the Performing Arts & Event Center, and a decrease in operating grants & contributions of \$0.9 million primarily due to reclassifying \$1 million of LIFT sales tax to capital grants and contributions.

Total expenses for governmental activities increased \$4.20 million or 6.4%. The net increase is primarily due to increases in the following expense categories: A \$4.00 million increase in “Security of persons & property” is primarily due to: \$1.23 million increase comprised of \$0.20 million in salaries and wages related to adding 3 positions for Probation division and \$1.03 million related to salaries and wages increase for 3 new Police officers at the end of 2016, increased contracted and regular overtime, cost of living adjustments, and health insurance cost increases; \$0.31 million for maintenance of fire hydrants; \$1.42 million increase in SCORE and Valleycomm operations, \$0.53 million increase due to adjustment for pension expense (GASB 68), \$0.15 million adjustment to expense for Valleycomm and SCORE investment in joint venture, and the remainder of \$0.36 million for various increases in supplies and service and charges. A \$0.41 million increase in “Culture and recreation” primarily due to: the addition of 1.0 FTE Parks Supervisor, 1.0 FTE Parks Maintenance Worker, 0.66 FTE Graphics Coordinator, seasonal help and benefits, maintenance services, additional supplies, and water and electricity utilities for Town Square Park. A \$0.23 million increase in “Economic environment” primarily due to: \$0.31 million increase due to re-branding initiative and college needs assessment study. A \$0.15 million decrease in “Transportation” is primarily due to a lower net loss adjustment to expense on disposed transportation capital assets that were not fully depreciated. A \$0.12 million decrease in “Health and human services” primarily due to less Community Development Block Grant support for projects such as housing acquisition.



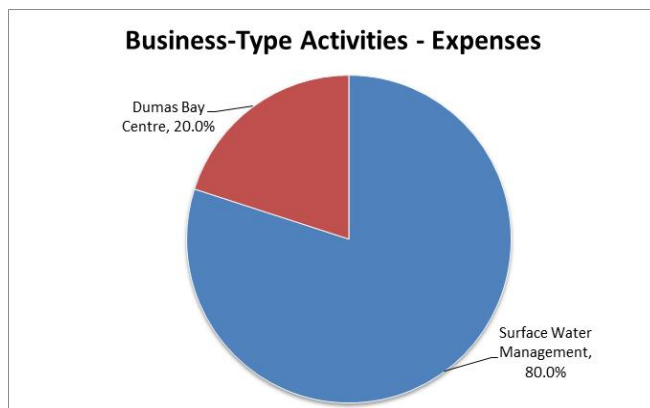
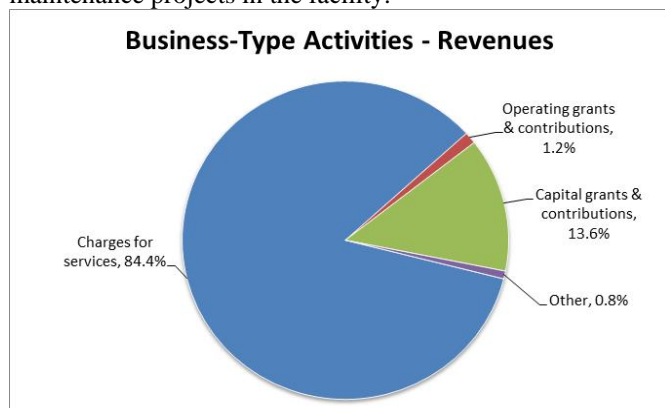
### **Business-Type Activities:**

Business-type activities of the City’s Surface Water Management system and Dumas Bay Centre decreased the City’s net position by \$0.6 million. The primary change compared to 2015 is due to the following revenues and expenses described below.



Total revenues increased by \$0.77 million or 15.3% from 2015. Attributing factors to the increase in revenues are as follows: An increase in surface water management fees of \$0.05 million and grant revenue for Surface Water Management operating and capital projects of \$0.51 million. In addition, Dumas Bay Centre revenue increased by \$0.19 million due to the increase in charges for services for rentals and events at the facility. The remaining increase of \$0.02 is due to an increase in investment earnings.

Total expenses increase of \$0.17 million or 3.2% from 2015. This is primarily due to an increase in Surface Water Management (SWM) of \$0.26 million for additional services and charges for SWM maintenance projects such as Marine Hills conveyance system repairs, \$0.09 million for addition to intergovernmental services and charges for SWM collection fees and Department of Ecology permits, \$0.02 million for addition to depreciation expense for SWM assets, and \$0.05 million for additional temporary help for increased Dumas Bay Centre (DBC) operations, offset by a decrease in SWM personnel services of \$0.06 million for an adjustment to pension expense (GASB 68), a decrease in supplies of \$0.10 million for DBC maintenance of the facility, and decrease in services and charges for DBC of \$0.09 million due to a decrease in repairs and maintenance projects in the facility.



## FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

### Governmental funds

The focus of the City of Federal Way's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unrestricted fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of 2016, the City's governmental funds had a combined ending fund balance of \$49.3 million which decreased by \$2.4 million from the prior year. Approximately 28% or \$13.8 million of this amount constitutes unrestricted General Fund balance, which is available for spending at the City Council's discretion. Non-spendable fund balance of \$0.2M is comprised of court trust and prepaid insurance/flex plan of \$0.2M. Restricted fund balance of \$21.2M is comprised of \$6.1M in transportation capital project funding sources including real estate excise tax (REET), mitigation impact fees, surface water management fees, and gas tax; \$0.9M in performing arts & event center capital project funding sources comprised of REET and LIFT sales tax; \$2.5M for future debt service payments; \$1.9M in parks capital project funding sources including REET, mitigation impact fees, and paths and trails funding; \$2.1M LIFT sales tax for downtown redevelopment infrastructure and parks projects; \$0.7M in hotel/motel lodging tax for promotion of tourism; \$0.6M in paths & trails parks levy dedicated for paths & trails projects; \$0.5M for special contracts/studies, \$0.03M in REET for city facilities capital projects, \$5.7M in REET for future capital projects and debt service payments, \$0.1M in Police seizure funds, and \$0.03M for Community Development Block Grant funds. Committed fund balance of \$14.1M 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 committed fund balance is detailed by fund under the fund balance classification in Note 1.

The General Fund is the chief operating fund of the City. Revenues and other sources totaling \$48.3M and expenditures and other uses totaling \$48.6M, resulted in a total fund balance decrease by \$0.3 million or 2.2%. Total ending fund balance of \$14.3M, is \$0.8M above the budgeted ending fund balance in the fund of \$13.5M. Fund balance policy resolution 15-682 set the General Fund and strategic reserve policy at \$12M. The City increased its transfer in from other sources to General Fund as

reflected in the transfer in included in the Statement of Revenues, Expenditures, and Changes in Fund Balances Governmental Funds to \$10.47M in 2016, compared to \$5.13M in 2015 and transfer out of \$3.69 in 2016, compared to \$1.89 in 2015.

The Street Fund has a total fund balance of \$0.5 million which primarily stayed static from 2015.

The Utility Tax Fund was established to account for the utility tax receipts which include 6% collected by State statute for capital, debt, and other maintenance & operations as determined by Council and the remaining 1.75% is for Voter Approved enhanced Police and Community Safety in 2007. Total fund balance decreased by \$1.1 million or 23% from \$4.8 million in 2015 mainly due to additional need for support of General Fund operations, Performing Arts & Event Center operations, and maintenance of overlay project on streets in Federal Way done in 2016. In addition, there has been an increase in pay for Police positions paid out of the fund.

The Debt Service Fund has a total fund balance of \$2.5 million which increased by \$1.0 million from \$1.5 million in 2015 due to transfers in from utility tax and real estate excise tax for future debt service payments within the fund.

The Downtown Redevelopment Fund was established to accumulate resources and set aside funding for downtown projects. Overall, ending fund balance increased by \$1.0 million from \$1.1 million. This is primarily due to a \$1.0 million addition in LIFT Sales tax revenue from the State.

The Transportation Fund is used to improve existing traffic signals, new signalization, major roadways and arterials involving the design and construction of new sections of streets, the widening of roadways to provide additional vehicle lanes, and the installation of sidewalks and landscaping. The major source of revenue for this fund is grants from other agencies and contributions from other funds. Total ending fund balance increased by \$2.0 million from \$8.0 million primarily due to transferring in General Fund and REET funds into large projects that are in construction such as SR99 HOV Lanes Phase V and S 352<sup>nd</sup> Street Extension from SR99 to SR 161.

The Performing Arts & Event Center Fund is being used for the building of the arts & event center. Ending fund balance decreased by \$5.2 million from \$6.6 million primarily due to additional capital outlay expenditures from being in the construction phase of the project. The project will be completed in the summer of 2017.

### **Proprietary funds**

The City of Federal Way's proprietary funds provide the same type of information found in the government-wide, but in more detail. Unrestricted net assets of the Surface Water Management Fund at the end of the year amounted to \$4.6 million, and those for Dumas Bay Centre amounted to \$0.5 million. The total changes in net position for both funds were \$0.8 million decrease and \$0.2 million increase, respectively. Other factors concerning the finances of these two funds have already been addressed in the discussion of the City of Federal Way's business-type activities.

## **GENERAL FUND BUDGETARY AND ACTUAL HIGHLIGHTS**

The City of Federal Way budgets on a biennial basis with each budget beginning in an odd numbered year. Appropriations for operating funds are authorized for two years, but must be reviewed and reauthorized by the City Council in the middle of the biennial period. In 2016, the City made budget adjustments. The following discussion is reflective only of the current year of the biennium.

The General Fund operating expenditure budget increased by \$5.1 million between the original adopted budget and the adjusted budget for 2016 fiscal year. The following is the major changes for the 2016 budget:

- Added \$0.42 million for fire hydrant maintenance and streetlight electricity. The City signed an agreement with Lakehaven early this year for a 3.6% franchise fee, and in exchange the City will pay for the fire hydrant maintenance and street lights that were initially paid for by Lakehaven and charged to the citizens.
- Added \$0.41 million for pre-opening operations of the Performing Arts & Event Center.
- Added \$0.35 million for the addition of the Probation division in May 2016 to the Municipal Court, including 2.0 FTE Probation Officers, 1.0 FTE Administrative Assistant, supplies, monitoring services, and probation software.
- Added \$0.31 million for 1.0 FTE Parks Supervisor, seasonal help and benefits, maintenance services, and 1.0 FTE Parks Maintenance Worker, additional supplies, and water and electricity utilities for Town Square Park.
- Added \$0.24 million for 1.0 FTE Graphics Coordinator, 0.5 FTE Videographer, IT Technician temporary help, and IT professional services.
- Added \$0.04 million for 0.5 FTE Legal Assistant.

- Added \$0.02 million for 0.25 FTE increase for HR Technician.
- Added \$1.92 million for SCORE jail services, outside jail services, Valleycomm dispatch services, Sub Station lease, and grants.
- Added \$0.59 million for Police negotiated salary contracts, vacation payout, contracted overtime, and tuition reimbursement.
- Added \$0.18 million for re-branding initiative and college needs assessment for the City.
- Added \$0.04 million for pro-tem pay, witness juror fees, and additional technology for Municipal Court.
- Added \$0.10 million for outside legal counsel services for Law.
- Added \$0.04 million for professional services and supplies for Economic Development.
- Added \$0.37 million for professional services and grants and KC public health contribution for Human Services.

Adjustments to revenues and other sources budget include: Adjustments to beginning balance of \$0.27 million; addition of Lakehaven franchise fee of \$0.42 million; increase in sales tax of \$1.8 million; increase in criminal justice sales tax of \$0.15 million; probation revenue of \$0.27 million; transfer in from traffic safety fund of \$1.78 million; transfer in from unemployment insurance fund of \$1.00 million; and increase in grants, miscellaneous revenue, and other transfers of \$1.08 million.

The General Fund ending fund balance of \$14.3 million is \$0.84 million over the projected \$13.5 million for 2016 year-end.

The \$0.84 million increase in ending fund balance is made up of \$0.86 million decrease in revenues/other sources and a decrease of \$1.69 million in expenditures/other uses.

The \$0.86 million decrease in revenues/other sources is primarily attributed to a decrease of \$0.45 million in transfer in from the Utility Tax Fund, \$0.81 million in community development permits and fees, \$0.36 million in court and probation revenue, property tax of \$0.13 million, offset by increases in sales tax of \$0.08 million, gambling taxes of \$0.04 million, state shared revenue of \$0.25 million, police contracted services fees of \$0.23 million, and park general recreation fees of \$0.10 million, and miscellaneous of \$0.19 million.

The \$1.77 million unspent expenditures/other uses are primarily attributable to: Reduction in transfer out for Street Fund subsidy of \$0.47 million and Transportation CIP Fund of \$0.22 million, and \$1.00 million in various savings and timing of payments in General Fund departments such as Human Services, Community Development, Economic Development, Municipal Court, Human Resources, Finance and Performing Arts & Event Center operations.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

The City of Federal Way's investment in capital assets for its governmental and business-type activities as of December 31, 2016 amounts to \$522.5 million (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, infrastructure, park facilities and construction in progress. For more details, please see Note 8, and prior period adjustment Note 15, pages 56 and 73.

#### CAPITAL ASSETS AT YEAR-END, NET OF DEPRECIATION

	Governmental Activities	Business-Type Activities	2016	Total 2015
Land	\$ 281,422,490	\$ 11,232,493	\$ 292,654,983	\$ 290,365,750
Building and improvements	30,688,197	4,744,863	35,433,061	35,117,879
Machinery and equipment	7,064,841	66,640	7,131,481	6,048,679
Infrastructure	108,383,697	43,282,287	151,665,984	153,215,077
Construction in progress	35,600,490	21,722	35,622,212	18,808,417
Total Capital Assets	\$ 463,159,715	\$ 59,348,005	\$ 522,507,720	\$ 503,555,802

Major capital asset events during the current fiscal year included the following amounts: Construction in progress added for expanding and improving the city streets and traffic corridors totaled \$9.0 million and Performing Arts and Event Center and various park improvements for \$15.6 million. Additionally there was land purchased and donated of \$2.3 million, infrastructure added of \$4.4 million, improvements other than buildings added of \$2.5 million, machinery and equipment added of \$2.5 million, and buildings added of \$1.2 million. There was also a prior period adjustment of (\$0.3) million described in Note 15 of the financial statements. Remaining commitments for capital assets is described in Note 8.

## Long-term debt

At the end of 2016, the City of Federal Way had total debt principal balance outstanding of \$36.0 million. The future principal and interest payments which are backed by the full faith and credit of the government will be \$47.3 million (See Note 11 pages 65 thru 67). The remainder of the City's debt represents Public Works Trust Fund Loans.

### LONG-TERM DEBT (FUTURE PRINCIPAL AND INTEREST PAYMENTS)

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
General obligation bonds	\$ 46,974,041	\$ -	\$ 46,974,041
Public works trust fund loan	-	294,126	294,126
Total	<u>\$ 46,974,041</u>	<u>\$ 294,126</u>	<u>\$ 47,268,167</u>

The City's total debt increased by \$1.2 million due to net of annual debt service payments and new addition of Section 108 HUD Loan.

In February 2017, Moody's Investors Service upgraded from Aa3 to Aa2 rating for the City's 2013 Limited Tax General Obligation Refunding Bonds.

Washington State statutes limit the amount of debt a government entity may issue to 7.5% of its total assessed valuation, subject to 60% majority vote of qualified electors. Of the 7.5% limit, 2.5% is for general purposes, 2.5% for open space/park facilities, and 2.5% for utilities. Non-voted general purpose indebtedness is limited to 1.5% of assessed valuation and the combination of voted and non-voted general purpose indebtedness cannot exceed 2.5% of assessed valuation.

The City's taxable assessed valuation for 2016 was \$9.420 billion and the total amount of debt the City may issue is \$673.3 million. Remaining legal debt capacities as of December 31, 2016 are:

General government (no vote required)	\$108,086,319
General government (3/5 majority vote required)	\$ 94,202,243
Parks and open space (3/5 majority vote required)	\$235,505,607
Utilities (3/5 majority vote required)	<u>\$235,505,607</u>
<b>Total Capacity</b>	<b><u>\$673,299,776</u></b>

Additional information on the City of Federal Way's long-term debt can be found in Note 11 on pages 65 thru 68 and in the Statistical Section of this report.

## REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the City of Federal Way's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Finance Department, City of Federal Way, 33325 8<sup>th</sup> Avenue South, Federal Way, Washington 98003, telephone 253-835-2520, or visit the City's website at [www.cityoffederalway.com](http://www.cityoffederalway.com).

## **Government-Wide Financial Statements**

### **Statement of Net Position**

This statement provides information on all city assets and deferred outflows of resources and liabilities and deferred inflows of resources, with the difference between the two reported as net position.

### **Statement of Activities**

This statement is focused on both the gross and net costs of various functions, including both governmental and business-type activities, which are supported by the City's general tax and other revenues.

**STATEMENT OF NET POSITION**

December 31, 2016

	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
<b>ASSETS</b>			
Cash & cash equivalents and investments	\$ 65,270,433	\$ 6,639,093	\$ 71,909,526
Receivables (net)	2,903,365	141,742	3,045,107
Due from other governments	5,845,523	391,989	6,237,512
Prepaid items	38,425	-	38,425
Restricted assets:			
Seizure funds/covert funds/municipal trust/retainage	1,168,324	-	1,168,324
Investment in joint venture	19,487,432	-	19,487,432
Capital assets not being depreciated:			
Land	281,422,490	11,232,493	292,654,983
Construction in progress	35,600,490	21,722	35,622,212
Capital assets net of accumulated depreciation:			
Buildings/structures	21,221,741	1,073,055	22,294,796
Improvements other than buildings	9,466,456	3,671,808	13,138,264
Machinery and equipment	7,064,841	66,640	7,131,481
Infrastructure	108,383,697	43,282,287	151,665,984
Net Pension Asset	2,418,256	-	2,418,256
Total Assets	<u>560,291,472</u>	<u>66,520,829</u>	<u>626,812,301</u>
<b>DEFERRED OUTFLOWS OF RESOURCES RELATED TO PENSIONS</b>			
	3,934,973	307,122	4,242,095
<b>LIABILITIES</b>			
Accounts payable and accruals	6,776,154	196,979	6,973,133
Unearned revenue	282,088	402,243	684,331
Retainage payable	964,859	10,228	975,087
Customer deposits	1,139,564	6,387	1,145,951
Noncurrent Liabilities:			
Due within one year	9,381,468	102,970	9,484,438
Due in more than one year	28,706,451	275,517	28,981,969
Net Pension Liability	<u>11,893,469</u>	<u>1,584,261</u>	<u>13,477,730</u>
Total Liabilities	59,144,053	2,578,585	61,722,639
<b>DEFERRED INFLOW OF RESOURCES RELATED TO PENSIONS</b>			
	<u>319,074</u>	<u>28,541</u>	<u>347,615</u>
<b>NET POSITION</b>			
Net investment in capital assets	440,815,201	59,059,646	499,874,847
Restricted for:			
Debt service	2,508,514	-	2,508,514
Capital projects	16,707,141	-	16,707,141
Steel Lake & North Lake Mgmt District	-	18,438	18,438
Other	2,156,941	-	2,156,941
Unrestricted	<u>42,575,521</u>	<u>5,142,741</u>	<u>47,718,262</u>
Total Net Position	<u>\$ 504,763,318</u>	<u>\$ 64,220,825</u>	<u>\$ 568,984,143</u>

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

**STATEMENT OF ACTIVITIES**  
For the Year ended December 31, 2016

	Program Revenues				Net (Expense) Revenue & Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
<b>Functions/Programs</b>							
<i>Governmental Activities:</i>							
General government	\$ 4,544,037	\$ 2,449,406	\$ 1,677,141	\$ -	\$ (417,491)	\$ -	\$ (417,491)
Security of persons & property	36,018,643	5,701,083	1,474,878	-	(28,842,683)	-	(28,842,683)
Transportation	12,920,893	1,565,140	1,777,727	8,948,900	(629,125)	-	(629,125)
Physical environment	469,237	304,294	114,357	-	(50,586)	-	(50,586)
Economic environment	3,206,414	1,766,106	-	6,914,282	5,473,975	-	5,473,975
Health	1,501,057	-	572,842	-	(928,214)	-	(928,214)
Culture & recreation	9,373,278	2,424,129	21,811	-	(6,927,338)	-	(6,927,338)
Interest on long-term debt	433,729	-	-	-	(433,729)	-	(433,729)
Total governmental activities	68,467,288	14,210,158	5,638,756	15,863,183	(32,755,191)	-	(32,755,191)
<i>Business-type Activities:</i>							
Surface Water Management	4,408,225	3,953,439	68,970	790,033	-	404,215	404,215
Dumas Bay Centre	1,104,971	947,092	-	-	-	(157,880)	(157,880)
Total business-type activities	5,513,197	4,900,530	68,970	790,033	-	246,336	246,336
<b>Total</b>	<b>\$ 73,980,485</b>	<b>\$ 19,110,688</b>	<b>\$ 5,707,725</b>	<b>\$ 16,653,215</b>	<b>(32,755,191)</b>	<b>246,336</b>	<b>(32,508,856)</b>
General revenues:							
Property tax					10,539,623	-	10,539,623
Sales tax					14,222,497	-	14,222,497
Local criminal justice sales tax					2,499,527	-	2,499,527
Utility tax					11,902,866	-	11,902,866
Real estate excise tax					5,265,138	-	5,265,138
Gambling tax					190,051	-	190,051
Hotel/motel tax					283,220	-	283,220
Leasehold excise tax					3,784	-	3,784
Other revenue					1,159,348	-	1,159,348
Investment earnings					367,647	45,405	413,052
Transfers					633,124	(633,124)	(0)
Total general revenues and transfers					47,066,823	(587,720)	46,479,103
Change in net position					14,311,632	(341,384)	13,970,247
Net position at beginning of year					490,451,686	64,828,447	555,280,133
Prior period adjustment (See Note 15)					-	(266,237)	(266,237)
Net Effect - Change in Accounting for Pensions					-	-	-
Adjusted beginning net position					490,451,686	64,562,209	555,013,895
Net position at end of year					<u>\$ 504,763,318</u>	<u>\$ 64,220,825</u>	<u>\$ 568,984,143</u>

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

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

	General	Street	Utility Tax	Debt Service
<b>ASSETS</b>				
Equity in pooled cash & investments	\$ 14,358,573	\$ 1,274,136	\$ 2,567,499	\$ 2,508,514
Prepaid insurance/debt service	33,425	-	-	-
Receivables (net):				
Taxes	244,485	-	1,292,387	-
Accounts and contracts	150,700	62,020	-	-
Restricted cash	262,005	-	-	-
Due from other governments	1,987,623	85,630	1,011	-
Interfund loans receivable	50,714	-	-	-
<b>TOTAL ASSETS</b>	<b>17,087,525</b>	<b>1,421,786</b>	<b>3,860,897</b>	<b>2,508,514</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>				
Liabilities:				
Vouchers payable	784,860	231,926	1,825	-
Accounts/payroll payable	1,132,216	85,888	111,153	-
Retainage payable	1,888	-	-	-
Deposits payable	605,174	506,946	-	-
Interfund loans payable	-	-	-	-
Unearned revenue	69,110	70,515	-	-
<b>TOTAL LIABILITIES</b>	<b>2,593,248</b>	<b>895,275</b>	<b>112,978</b>	<b>-</b>
<b>DEFERRED INFLOWS OF RESOURCES FOR UNAVAILABLE PROPERTY TAXES</b>	<b>204,879</b>	<b>-</b>	<b>-</b>	<b>-</b>
Fund Balance:				
Nonspendable	187,284	-	-	-
Restricted	108,147	-	-	2,508,514
Committed	199,013	526,511	3,747,919	-
Unassigned	13,794,955	-	-	-
<b>TOTAL FUND BALANCES</b>	<b>14,289,398</b>	<b>526,511</b>	<b>3,747,919</b>	<b>2,508,514</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	<b>\$ 17,087,525</b>	<b>\$ 1,421,786</b>	<b>\$ 3,860,897</b>	<b>\$ 2,508,514</b>

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



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

	Downtown Redevelopment	Transportation	Performing Arts & Event Ctr	Nonmajor Governmental	Total
<b>ASSETS</b>					
Equity in pooled cash & investments	\$ 2,048,068	\$ 7,451,384	\$ 2,960,380	\$ 14,887,186	\$ 48,055,740
Prepaid insurance/debt service	-	-	-	-	33,425
Receivables (net):					
Taxes	-	-	-	252,801	1,789,673
Accounts and contracts	-	872,615	-	28,357	1,113,692
Restricted Cash	-	203,209	628,062	75,048	1,168,324
Due from other governments	71,205	3,387,222	-	312,832	5,845,523
Interfund loans receivable	-	-	-	-	50,714
<b>TOTAL ASSETS</b>	<b>2,119,273</b>	<b>11,914,430</b>	<b>3,588,442</b>	<b>15,556,224</b>	<b>58,057,092</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>					
Liabilities:					
Vouchers payable	173	1,712,200	1,587,516	293,726	4,612,227
Accounts/payroll payable	-	9,409	-	165,180	1,503,846
Retainage payable	-	203,209	628,062	131,700	964,859
Deposits payable	-	-	-	27,445	1,139,565
Interfund loans payable	-	-	-	50,714	50,714
Unearned revenue	-	-	-	142,463	282,088
<b>TOTAL LIABILITIES</b>	<b>173</b>	<b>1,924,817</b>	<b>2,215,579</b>	<b>811,228</b>	<b>8,553,298</b>
<b>DEFERRED INFLOWS OF RESOURCES FOR UNAVAILABLE PROPERTY TAXES</b>	<b>1</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>204,880</b>
Fund Balance:					
Nonspendable	-	-	-	-	187,284
Restricted	2,117,223	6,136,786	855,100	9,459,542	21,185,312
Committed	1,877	3,852,827	517,763	5,285,454	14,131,364
Unassigned	-	-	-	-	13,794,955
<b>TOTAL FUND BALANCES</b>	<b>2,119,100</b>	<b>9,989,613</b>	<b>1,372,863</b>	<b>14,744,996</b>	<b>49,298,914</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	<b>\$ 2,119,273</b>	<b>\$ 11,914,430</b>	<b>\$ 3,588,442</b>	<b>\$ 15,556,224</b>	
Amounts reported for governmental activities in the statement of net position are different because:					
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. See Note 8, difference is the Internal Service fund amount of \$13.33M on page 37					449,832,864
Investment in joint venture is not a financial resource and, therefore, not reported in the funds. See Note 14 \$19.49M.					19,487,432
Other long-term and non-current assets are not available to pay for current-period expenditures and, therefore, are not reported in the funds: includes deferred inflows, and net pension asset. See Note 6 \$205K & Note 9 \$2.42M (page 58)					2,623,136
Internal service funds are used to charge the costs of insurance, unemployment, information systems, mail and duplication, fleet, and building to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position. Page 37 Internal Svc Net Position \$29.35M - Adj \$50.6K + \$61.7K LT Comp Abs + \$634.3K Net Pension Liability (NPL) + \$11.4K Def Infl Rel to Pensions - \$122.6K Def Outfl Rel to Pensions					29,886,461
Long-term liabilities, including bonds payable, pension liability, and inflows/outflows related to pensions are not due and payable in the current period and, therefore, are not reported in the funds. See Note 11 -\$35.7M -\$2.0M - \$0.33M, In Govt Wide - \$11.9 NPL - \$0.32M Def Infl Rel to Pensions + \$3.9M Def Outfl Rel to Pensions					(46,365,489)
Net position of governmental activities					<u>\$ 504,763,318</u>

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

**STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
For Year Ended December 31, 2016**

	General	Street	Utility Tax	Debt Service
<b>REVENUES</b>				
Taxes	\$ 27,274,749	\$ -	\$ 11,902,866	\$ -
Licenses and permits	2,984,639	155,494	-	-
Intergovernmental	2,258,505	1,260,890	-	-
Service charges and fees	3,596,805	331,996	-	-
Fines and forfeitures	942,258	-	-	-
Interest	183,881	3,943	17,499	8,814
Other	607,186	41,229	-	-
<b>TOTAL REVENUES</b>	<b>37,848,023</b>	<b>1,793,552</b>	<b>11,920,365</b>	<b>8,814</b>
<b>EXPENDITURES</b>				
Current:				
General government	4,512,577	-	-	-
Security of persons and property	31,021,318	204,921	2,670,798	-
Transportation	845,613	3,366,063	-	-
Physical environment	-	-	-	-
Economic environment	3,074,529	-	47,768	-
Health	1,005,679	-	-	-
Culture and recreation	4,428,749	-	108,075	-
Debt service:				
Principal	-	-	-	470,000
Interest/fiscal charges/admin fees	-	-	-	342,423
Capital outlay	54,628	6,652	-	-
<b>TOTAL EXPENDITURES</b>	<b>44,943,093</b>	<b>3,577,636</b>	<b>2,826,641</b>	<b>812,423</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(7,095,070)</b>	<b>(1,784,084)</b>	<b>9,093,724</b>	<b>(803,609)</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	10,465,074	1,810,595	198,386	1,840,544
Transfers out	(3,685,564)	-	(10,383,688)	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>6,779,510</b>	<b>1,810,595</b>	<b>(10,185,302)</b>	<b>1,840,544</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>(315,560)</b>	<b>26,511</b>	<b>(1,091,578)</b>	<b>1,036,935</b>
<b>FUND BALANCES - BEGINNING</b>	<b>14,604,958</b>	<b>500,000</b>	<b>4,839,497</b>	<b>1,471,579</b>
<b>FUND BALANCES - ENDING</b>	<b>\$ 14,289,398</b>	<b>\$ 526,511</b>	<b>\$ 3,747,919</b>	<b>\$ 2,508,514</b>

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

**STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS**  
For Year Ended December 31, 2016

	Downtown Redevelopment	Transportation	Performing Arts & Event Ctr	Nonmajor Governmental	Total
<b>REVENUES</b>					
Taxes	\$ 111	\$ -	\$ -	\$ 5,721,142	\$ 44,898,868
Licenses and permits	-	-	-	-	3,140,133
Intergovernmental	1,004,282	8,185,583	8,835,000	1,163,847	22,708,107
Service charges and fees	-	1,007,651	-	1,998,337	6,934,789
Fines and forfeitures	-	-	-	3,192,978	4,135,236
Interest	5,602	12,353	23,377	53,174	308,643
Other	-	485	179,191	331,257	1,159,348
<b>TOTAL REVENUES</b>	<b>1,009,995</b>	<b>9,206,072</b>	<b>9,037,568</b>	<b>12,460,735</b>	<b>83,285,124</b>
<b>EXPENDITURES</b>					
Current:					
General government	5,291	-	-	23,360	4,541,228
Security of persons and property	-	-	-	1,758,914	35,655,951
Transportation	-	1,048,996	-	1,901,529	7,162,201
Physical environment	-	-	-	452,720	452,720
Economic environment	-	-	8,027	50,484	3,180,808
Health	-	-	-	492,114	1,497,793
Culture and recreation	-	-	-	2,495,309	7,032,133
Debt service:					
Principal	-	-	-	-	470,000
Interest/fiscal charges/admin fees	123,970	-	-	5,345	471,738
Capital outlay	-	10,964,070	14,274,454	1,446,045	26,745,849
<b>TOTAL EXPENDITURES</b>	<b>129,261</b>	<b>12,013,066</b>	<b>14,282,481</b>	<b>8,625,820</b>	<b>87,210,421</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>880,734</b>	<b>(2,806,994)</b>	<b>(5,244,913)</b>	<b>3,834,915</b>	<b>(3,925,297)</b>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers in	127,348	4,788,000	-	1,813,943	21,043,890
Transfers out	-	-	-	(5,455,568)	(19,524,820)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>127,348</b>	<b>4,788,000</b>	<b>-</b>	<b>(3,641,625)</b>	<b>1,519,070</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>1,008,082</b>	<b>1,981,006</b>	<b>(5,244,913)</b>	<b>193,290</b>	<b>(2,406,227)</b>
<b>FUND BALANCES - BEGINNING</b>	<b>1,111,018</b>	<b>8,008,607</b>	<b>6,617,776</b>	<b>14,551,706</b>	<b>51,705,141</b>
<b>FUND BALANCES - ENDING</b>	<b>\$ 2,119,100</b>	<b>\$ 9,989,613</b>	<b>\$ 1,372,863</b>	<b>\$ 14,744,996</b>	<b>\$ 49,298,914</b>

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

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES**  
For the Year Ended December 31, 2016

Amounts reported for governmental activities in the statement of activities (page 28) are different because:	<u>2016</u>
Net change in fund balances--total governmental funds (page 32)	\$ (2,406,227)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period. (page 51)	19,431,185
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. (page 51)	7,837
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the issuance proceeds of new debt as current financial resources and payment as the use of current resources, whereas these amounts reduce the net position. (page 51)	(2,030,892)
Internal service funds are used by management to charge costs of risk management, information systems, mail & duplication, fleet, and building systems to the funds. (page 38) -\$707K + \$9.9K	(696,836)
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 funds. Includes adjustment for GASB 68 pension reporting. (page 51) \$118K - \$111K	<u>6,564</u>
Change in net position of governmental activities (page 28)	<u><u>\$ 14,311,632</u></u>

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

**GENERAL FUND**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**BUDGET AND ACTUAL**

For Year Ended December 31, 2016

	Budgeted Amounts			Variance with Final Budget - Positive (Negative)
	Original	Final	Actual Amounts	
<b>REVENUES</b>				
Taxes	\$ 25,450,498	\$ 27,297,114	\$ 27,274,749	\$ (22,365)
Licenses and permits	2,847,000	3,271,289	2,984,639	(286,650)
Intergovernmental	1,747,162	2,007,898	2,258,505	250,607
Service charges and fees	3,559,346	4,024,457	3,596,805	(427,652)
Fines and forfeitures	1,163,000	1,163,000	942,258	(220,742)
Interest	134,000	134,000	183,881	49,881
Other	359,700	359,700	607,186	247,486
<b>TOTAL REVENUES</b>	<b>35,260,709</b>	<b>38,257,456</b>	<b>37,848,023</b>	<b>(409,433)</b>
<b>EXPENDITURES</b>				
Current:				
General government	4,299,195	4,875,922	4,512,577	363,345
Security of persons and property	28,086,557	31,124,931	31,021,318	103,613
Transportation	687,428	827,039	845,613	(18,574)
Economic environment	2,784,261	3,342,533	3,074,529	268,004
Health	1,028,785	1,383,804	1,005,679	378,125
Culture and recreation	4,001,174	4,336,677	4,428,749	(92,072)
Capital outlay	-	54,628	54,628	-
<b>TOTAL EXPENDITURES</b>	<b>40,887,400</b>	<b>45,945,534</b>	<b>44,943,093</b>	<b>1,002,441</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(5,626,690)</b>	<b>(7,688,078)</b>	<b>(7,095,070)</b>	<b>593,008</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	7,449,132	10,913,345	10,465,074	(448,271)
Transfers out	(4,153,943)	(4,376,932)	(3,685,564)	691,368
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>3,295,189</b>	<b>6,536,413</b>	<b>6,779,510</b>	<b>243,097</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>(2,331,501)</b>	<b>(1,151,665)</b>	<b>(315,560)</b>	<b>836,105</b>
<b>FUND BALANCES - BEGINNING</b>	<b>14,338,201</b>	<b>14,604,958</b>	<b>14,604,958</b>	<b>-</b>
<b>FUND BALANCES - ENDING</b>	<b>\$ 12,006,700</b>	<b>\$ 13,453,293</b>	<b>\$ 14,289,398</b>	<b>\$ 836,105</b>

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

**STREET FUND**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**BUDGET AND ACTUAL**

For Year Ended December 31, 2016

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Licenses and permits	\$ 115,000	\$ 115,000	\$ 155,494	\$ 40,494
Intergovernmental	1,045,000	1,104,504	1,260,890	156,386
Service charges and fees	202,000	202,000	331,996	129,996
Interest	2,000	2,000	3,943	1,943
Other	34,000	34,000	41,229	7,229
<b>TOTAL REVENUES</b>	<b>1,397,999</b>	<b>1,457,503</b>	<b>1,793,552</b>	<b>336,049</b>
<b>EXPENDITURES</b>				
Current:				
Security of persons and property	198,088	221,114	204,921	16,193
Transportation	3,792,854	3,862,680	3,366,063	496,617
Capital outlay	-	6,652	6,652	-
<b>TOTAL EXPENDITURES</b>	<b>3,990,942</b>	<b>4,090,446</b>	<b>3,577,636</b>	<b>512,810</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(2,592,943)</b>	<b>(2,632,943)</b>	<b>(1,784,084)</b>	<b>848,859</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	2,592,943	2,632,943	1,810,595	(822,348)
Transfers out	-	-	-	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>2,592,943</b>	<b>2,632,943</b>	<b>1,810,595</b>	<b>(822,348)</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>0</b>	<b>0</b>	<b>26,511</b>	<b>26,511</b>
<b>FUND BALANCES - BEGINNING</b>	<b>500,000</b>	<b>500,000</b>	<b>500,000</b>	<b>-</b>
<b>FUND BALANCES - ENDING</b>	<b>\$ 500,000</b>	<b>\$ 500,000</b>	<b>\$ 526,511</b>	<b>\$ 26,511</b>

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

**UTILITY TAX FUND**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**BUDGET AND ACTUAL**

For Year Ended December 31, 2016

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Taxes	\$ 12,677,790	\$ 11,668,756	\$ 11,902,866	\$ 234,110
Interest	6,000	6,000	17,499	11,499
<b>TOTAL REVENUES</b>	<b>12,683,791</b>	<b>11,674,757</b>	<b>11,920,365</b>	<b>245,608</b>
<b>EXPENDITURES</b>				
Current:				
Security of persons and property	2,693,318	2,773,384	2,670,798	102,586
Economic environment	107,497	107,497	47,768	59,729
Culture and recreation	97,469	97,469	108,075	(10,606)
<b>TOTAL EXPENDITURES</b>	<b>2,898,284</b>	<b>2,978,350</b>	<b>2,826,641</b>	<b>151,709</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>9,785,507</b>	<b>8,696,407</b>	<b>9,093,724</b>	<b>397,317</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	-	839,880	198,386	(641,494)
Transfers out	(10,351,547)	(11,455,603)	(10,383,688)	1,071,915
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(10,351,547)</b>	<b>(10,615,723)</b>	<b>(10,185,302)</b>	<b>430,421</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>(566,040)</b>	<b>(1,919,316)</b>	<b>(1,091,578)</b>	<b>827,738</b>
<b>FUND BALANCES - BEGINNING</b>	<b>3,066,040</b>	<b>4,839,496</b>	<b>4,839,497</b>	<b>1</b>
<b>FUND BALANCES - ENDING</b>	<b>\$ 2,500,000</b>	<b>\$ 2,920,180</b>	<b>\$ 3,747,919</b>	<b>\$ 827,739</b>

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

**STATEMENT OF NET POSITION  
PROPRIETARY FUNDS**

December 31, 2016

	Business-type Activities - Enterprise Funds			Governmental Activities
	Surface Water Management	Dumas Bay Centre	TOTAL	Internal Service
<b>ASSETS</b>				
Current Assets				
Equity in pooled cash & investments	\$ 5,603,591	\$ 984,903	\$ 6,588,494	\$ 17,265,292
Prepaid items	-	-	-	5,000
Receivables (net):				
Accounts and contracts	122,459	19,283	141,742	-
Due from other governments	391,989	-	391,989	-
<b>TOTAL CURRENT ASSETS</b>	<b>6,118,039</b>	<b>1,004,186</b>	<b>7,122,225</b>	<b>17,270,292</b>
Property, plant and equipment				
Land	9,122,853	2,109,640	11,232,493	-
Building/structures	832,086	3,673,262	4,505,348	16,545,121
Improvements other than buildings	3,598,472	314,901	3,913,373	-
Machinery/furniture/equipment	52,946	122,200	175,146	17,893,818
Infrastructure	58,395,604	-	58,395,604	-
Construction in progress	21,722	-	21,722	-
Less accumulated depreciation	(15,365,912)	(3,529,769)	(18,895,681)	(21,112,089)
<b>TOTAL NONCURRENT ASSETS</b>	<b>56,657,771</b>	<b>2,690,234</b>	<b>59,348,005</b>	<b>13,326,850</b>
<b>TOTAL ASSETS</b>	<b>62,775,810</b>	<b>3,694,420</b>	<b>66,470,230</b>	<b>30,597,142</b>
<b>DEFERRED OUTFLOWS RELATED TO PENSIONS</b>				
	259,865	47,257	307,122	122,623
<b>LIABILITIES AND FUND EQUITY</b>				
Current Liabilities:				
Vouchers/payroll payable	154,993	41,986	196,979	660,082
Unearned revenue	116,725	285,518	402,243	-
Retainage payable	5,616	4,612	10,228	-
Deposits payable	-	6,387	6,387	-
Public Works trust fund loan payable	96,120	-	96,120	-
Compensated absences payable	5,557	1,293	6,850	-
<b>TOTAL CURRENT LIABILITIES</b>	<b>379,011</b>	<b>339,796</b>	<b>718,807</b>	<b>660,082</b>
Long-term liabilities:				
Public Works trust fund loan payable	192,239	-	192,239	-
Compensated absences payable	67,558	15,720	83,278	61,697
Net Pension Liability	1,338,956	245,305	1,584,261	634,268
<b>TOTAL LONG-TERM LIABILITIES</b>	<b>1,598,753</b>	<b>261,025</b>	<b>1,859,778</b>	<b>695,965</b>
<b>TOTAL LIABILITIES</b>	<b>1,977,764</b>	<b>600,821</b>	<b>2,578,585</b>	<b>1,356,047</b>
<b>DEFERRED INFLOWS RELATED TO PENSIONS</b>				
	24,121	4,420	28,541	11,427
Net investment in capital assets	56,369,412	2,690,234	59,059,646	13,326,850
Restricted for:				
Steel Lake & North Lake Mgmt District	18,438	-	18,438	-
Unrestricted	4,645,940	446,202	5,092,142	16,025,441
<b>TOTAL NET POSITION</b>	<b>\$ 61,033,790</b>	<b>\$ 3,136,436</b>	<b>64,170,226</b>	<b>\$ 29,352,291</b>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds			50,599	
<b>NET POSITION OF BUSINESS-TYPE ACTIVITIES</b>			<b>\$ 64,220,825</b>	

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



**STATEMENT OF REVENUES, EXPENSES  
AND CHANGES IN FUND NET POSITION  
PROPRIETARY FUNDS**

For Year Ended December 31, 2016

	Business-type Activities - Enterprise Funds			Governmental Activities
	Surface Water Management	Dumas Bay Centre	TOTAL	Internal Service
<b>OPERATING REVENUES:</b>				
Service charges and fees	\$ 3,953,439	\$ 947,092	\$ 4,900,531	\$ 11,010,631
Intergovernmental	68,970	-	68,970	-
Miscellaneous	-	-	-	96,561
<b>TOTAL OPERATING REVENUES</b>	<b>4,022,409</b>	<b>947,092</b>	<b>4,969,501</b>	<b>11,107,192</b>
<b>OPERATING EXPENSES:</b>				
Personnel services	1,939,522	421,331	2,360,853	954,394
Materials and supplies	145,489	192,707	338,196	635,253
Services and charges	718,363	285,056	1,003,419	7,294,393
Intergovernmental	311,903	1,189	313,092	151,625
Depreciation	594,630	157,240	751,870	2,271,828
Interfund charges	681,228	46,165	727,393	-
<b>TOTAL OPERATING EXPENSES</b>	<b>4,391,135</b>	<b>1,103,688</b>	<b>5,494,823</b>	<b>11,307,493</b>
<b>OPERATING INCOME (LOSS)</b>	<b>(368,726)</b>	<b>(156,596)</b>	<b>(525,322)</b>	<b>(200,301)</b>
<b>NON-OPERATING REVENUES (EXPENSES):</b>				
Gain (Loss) from disposal of capital assets	-	-	-	161,135
Interest income	36,952	3,838	40,790	63,618
Interest expense	(3,845)	-	(3,845)	-
<b>TOTAL NON-OPERATING REVENUES (EXPENSES)</b>	<b>33,107</b>	<b>3,838</b>	<b>36,945</b>	<b>224,753</b>
<b>INCOME (LOSS) BEFORE TRANSFERS</b>	<b>(335,619)</b>	<b>(152,758)</b>	<b>(488,377)</b>	<b>24,452</b>
Capital contributions	790,033	-	790,033	154,741
Transfers in	-	331,875	331,875	114,055
Transfers out	(965,000)	-	(965,000)	(1,000,000)
<b>CHANGE IN NET POSITION</b>	<b>(510,586)</b>	<b>179,117</b>	<b>(331,469)</b>	<b>(706,752)</b>
<b>NET POSITION - BEGINNING</b>	<b>61,810,613</b>	<b>2,957,319</b>		<b>30,059,043</b>
Prior period adjustment	(266,237)	-		-
Net Effect - Change in Accounting for Pensions	-	-		-
<b>ADJUSTED NET POSITION - BEGINNING</b>	<b>61,544,376</b>	<b>2,957,319</b>		<b>30,059,043</b>
<b>NET POSITION - ENDING</b>	<b>\$ 61,033,790</b>	<b>\$ 3,136,436</b>		<b>\$ 29,352,291</b>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise			(9,917)	
<b>CHANGES IN NET POSITION OF BUSINESS-TYPE ACTIVITIES</b>			<b>\$ (341,386)</b>	

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

**STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS**

For Year Ended December 31, 2016

	Business-type Activities - Enterprise Funds			Governmental Activities
	Surface Water Management	Dumas Bay Centre	TOTAL	Internal Service
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Cash received from users	\$ 3,955,151	\$ 973,674	\$ 4,928,825	\$ 11,033,119
Cash payments to claimants	-	-	-	(286,530)
Cash payments to suppliers for goods/services	(909,754)	(488,264)	(1,398,018)	(6,904,081)
Cash payments to employees	(1,981,382)	(417,169)	(2,398,551)	(948,344)
Cash payments to other funds for goods and services	(681,228)	(46,165)	(727,393)	-
Cash payments to other governments for goods and services	(311,903)	(1,187)	(313,090)	(654,529)
Other operating receipts	(293,253)	-	(293,253)	112,788
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>(222,369)</u>	<u>20,889</u>	<u>(201,480)</u>	<u>2,352,422</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
Transfers in	-	331,875	331,875	114,055
Transfers out	(965,000)	-	(965,000)	(1,000,000)
NET CASH PROVIDED BY NONCAPITAL FINANCING	<u>(965,000)</u>	<u>331,875</u>	<u>(633,125)</u>	<u>(885,945)</u>
<b>CASH FLOWS FROM CAPITAL AND CAPITAL - RELATED FINANCING ACTIVITIES:</b>				
Principal paid on debt service	(96,120)	-	(96,120)	-
Interest paid on debt service	(3,845)	-	(3,845)	-
Acquisition of capital asset/construction work in progress*	(101,181)	(92,247)	(193,428)	(1,584,322)
Proceeds from the sale of capital assets	-	-	-	161,135
NET CASH USED FOR CAPITAL AND CAPITAL- RELATED FINANCING ACTIVITIES	<u>(201,146)</u>	<u>(92,247)</u>	<u>(293,393)</u>	<u>(1,423,188)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>				
Receipts of interest	36,952	3,838	40,790	63,620
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>36,952</u>	<u>3,838</u>	<u>40,790</u>	<u>63,620</u>
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<u>(1,351,564)</u>	<u>264,355</u>	<u>(1,087,209)</u>	<u>106,910</u>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<u>6,955,155</u>	<u>720,548</u>	<u>7,675,703</u>	<u>17,158,382</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u><u>5,603,591</u></u>	<u><u>984,903</u></u>	<u><u>6,588,494</u></u>	<u><u>17,265,292</u></u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>				
Operating Income/(loss)	(368,720)	(156,598)	(525,318)	(200,302)
Adjustments to reconcile operating income to net cash provided/(used) by operating activities:				
Increases/(decrease) in depreciation expense	594,630	157,244	751,874	2,271,828
(Increases)/decrease in accounts receivable	(20,084)	14,588	(5,497)	-
(Increases)/decrease in due from other governments	(362,223)	-	(362,223)	38,715
(Increases)/decrease in deferred outflows related to pensions	(91,799)	(18,302)	(110,101)	(45,502)
Increases/(decrease) in vouchers/accounts payable	(12,459)	(15,361)	(27,820)	236,131
Increases/(decrease) in retainage payable	(33,449)	4,612	(28,837)	-
Increases/(decrease) in deposits payable	-	250	250	-
Increases/(decrease) in deferred revenue	21,796	11,994	33,790	-
Increases/(decrease) in accrued payroll/compensated absences payable	(3,248)	(1,582)	(4,830)	6,936
Increases/(decrease) in net pension liability	204,049	49,774	253,823	113,486
Increases/(decrease) in deferred inflows related to pensions	(150,862)	(25,728)	(176,590)	(68,870)
TOTAL ADJUSTMENTS	<u>146,351</u>	<u>177,487</u>	<u>323,838</u>	<u>2,552,724</u>
<b>NET CASH PROVIDED/USED BY OPERATING ACTIVITIES</b>	<u><u>\$ (222,369)</u></u>	<u><u>\$ 20,889</u></u>	<u><u>\$ (201,480)</u></u>	<u><u>\$ 2,352,422</u></u>
<b>Non-cash investing, capital, and financing activities:</b>				
Other contributions of capital assets				<u><u>\$ 154,741</u></u>

\*The \$790,033 in capital contribution as referenced on page 38 is for \$415,139 in non-cash transactions for donated Surface Water Management infrastructure assets, and \$374,894 in cash transactions under category "acquisition of capital assets" for grants used in acquiring Surface Water Management capital assets. (\$374,894 in grants for capital assets - \$476,075 in capital assets constructed in current year = -\$101,181)

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**For the Year Ended December 31, 2016**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**REPORTING ENTITY**

The City of Federal Way was incorporated on February 28, 1990. Federal Way is a non-charter code city, operating under Section 35A.03 of the Revised Code of Washington. It has a Mayor/Council form of government. The Council is composed of seven councilmembers elected to four-year terms on a non-partisan ballot and are elected at-large. Members of the City Council are responsible for establishing the general direction and policies for the City and for providing the resources necessary to carry out those policies. As the City's chief administrator, the City Mayor is responsible for carrying out the policy and direction set by the City Council. This includes the enforcement of laws and ordinances, the execution of contracts and agreements, and maintenance of peace and order in the City. The City of Federal Way provides a full range of municipal services, including policing, planning and zoning, street maintenance and construction, parks and recreation, and general administrative services. The City operates enterprise funds for Storm Water Management and Dumas Bay Centre.

The City's Comprehensive Annual Financial Report (CAFR) includes the funds, agencies and boards controlled by or dependent on the City. In conformance with Governmental Accounting Standards Board (GASB) Statement 14, "The Financial Reporting Entity", the primary basis of determining whether outside agencies and organizations should be considered component units of the City is Financial Accountability. Financial Accountability is dependent on the City's obligation to redeem the organization's debts, to finance the organization's deficits, and the extent to which subsidies from the City constitute a major portion of the organization's total resources. Applying these criteria, as outlined in GASB Statement 14, the City has no relationships that qualify as component units.

**Financial Accountability**

Financial accountability is defined as appointment of a voting majority of an agency's or organization's board, and either the City's ability to impose its will on the agency or organization or the possibility that the agency or organization will provide a financial benefit to or impose a financial burden on the City.

**Joint Ventures**

A joint venture is a legal entity or organization which results from a contractual arrangement that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which participants retain an ongoing financial interest or an ongoing financial responsibility. The City participates in two joint ventures: Valley Communications Center and South Correctional Entity (SCORE). See Note 14, Joint Ventures, which more fully describes these organizations.

**BASIS OF PRESENTATION - GOVERNMENTAL-WIDE AND FUND FINANCIAL STATEMENTS**

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

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

As a general rule the effect of the interfund activity has been eliminated for the government-wide financial statements. Separate fund financial statements are provided for governmental funds, and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

The City reports the following major governmental funds:

General Fund – This is the City’s general operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Street Fund – This fund accounts for the receipt and disbursement of State-levied motor vehicle fuel taxes which must be accounted for in a separate fund and expended for street-oriented engineering, maintenance and operations.

Utility Tax Fund – This fund was established to account for all utility tax receipts. These receipts will subsequently be distributed to various funds to provide for debt service, capital projects, maintenance and operations expenditures, etc. as determined by the City Council.

Debt Service Fund – This fund accounts for the accumulation of resources for the payment of general obligation and assessment bond principal, interest and related costs.

Downtown Redevelopment CIP Fund – This fund was established to accumulate resources to set aside for downtown projects.

Transportation CIP Fund – This fund accounts for receipts and disbursements related to acquisition, design, construction and any other related street project expenditures.

Performing Arts & Event Center Fund – This fund was established to accumulate resources to set aside for Performing Arts and Event Center (PAEC).

The City reports the following fund groups as non-major funds:

Special Revenue Funds – These funds are to be used to account for the proceeds of revenues and sources (other than special assessments, expendable trust or major capital projects) that are committed or legally restricted to expenditures for specified purposes.

Capital Project Funds – These funds account for the acquisition or construction of major capital facilities with the exception of those facilities financed by the proprietary fund. The major sources of revenues for these funds are general obligation bond proceeds, grants from other agencies, local taxes, contributions from other funds, utility tax, and real estate excise tax.

The City reports the following major enterprise funds:

Surface Water Management Fund – This fund was established to administer and account for all receipts and expenditures related to the City’s surface and storm water management system.

Dumas Bay Centre Fund – This fund was established to account for revenues and expenses related to the acquisition, capital improvements maintenance and operations of the City-owned Dumas Bay Centre and Knutzen Family Theatre. The Dumas Bay Centre is primarily used for meetings, events, lodging, and catering services.

Additionally, the City reports following internal service funds:

Risk Management Fund – This fund accounts for the City’s risk financing activities established to minimize adverse effects of losses associated with property and casualty, and worker’s compensation claims. Both risk control (to minimize the losses that strike an organization) and risk financing (to obtain finances to provide for or restore the economic damages of those losses) are involved. The City is also currently recovering costs and building reserves for general liability including property, casualty, errors and omissions and fidelity coverage.

Information Systems Fund – This fund was established to account for all costs associated with data processing, telecommunications and the Geographical Information System (GIS). This fund owns and depreciates all non-proprietary fund assets related to these functions, and charges equipment/software users for both maintenance and operating costs and equipment replacement charges based on depreciation schedules.

Mail & Duplication Fund – This fund accounts for duplication, graphics and other general support services provided to departments and funds throughout the City.

Fleet and Equipment Fund – This fund accounts for the cost of maintaining City vehicles and other motorized equipment. Rates charged to user departments are based on the full cost of maintaining equipment items, including the recovery of related depreciation expense.

Buildings and Furnishings Fund – This fund accounts for all costs associated with the operation and maintenance of specified City buildings. City building facilities and furnishings owned by this Fund. Both maintenance/operating costs and depreciation recovery are charged to City departments and funds.

Health Insurance Fund – The City is currently self-insuring for medical insurance. The premiums paid by the City and employees are deposited into this fund. Medical service for medical coverage and pharmaceutical reimbursement are paid out of this fund. Also, establish reserves for the payment of estimated future claims.

Unemployment Insurance Fund - The City is currently self-insuring State Unemployment Compensation. Related premiums received by the fund are used to reimburse the unemployment benefits paid to eligible individuals and to establish reserves for the payment of estimated future unemployment claims liability.

Internal Service Funds account for goods and services provided to other departments or agencies of City of Federal Way, or to other governments, on a cost-reimbursement basis.

## MEASUREMENT FOCUS, BASIS OF ACCOUNTING

### Government-Wide and Governmental Funds

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, similar to the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City of Federal Way considers revenues to be available if they are collected within 30 days of the end of the current fiscal period. The City considers property tax as available if they are collected within 60 days after year end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, licenses, and interest associated within the current period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. Only the portion of property tax receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

Major revenues recorded on the modified accrual basis are:

**Property Taxes** - King County acts as the City's collection agent for these taxes. Upon receipt, the County electronically transmits to the City the taxes which it has collected on the City's behalf in the prior day. On this basis, property taxes received in January are considered both measurable and available and are therefore recognized as revenue in the current year.

**Other Locally Levied Taxes** - King County also acts as the City's collection agent for the ¼% and optional ¼% real estate excise taxes. Although a time lag occurs in payment of these taxes to the City, since the taxes are actually collected by King County in December and receipted to the City within 10 days after the end of the year, they are considered to be both measurable and available, and are, therefore, accrued as revenue at year end. The State of Washington acts as the City's collection agency for the locally levied sales tax. The sales tax is distributed monthly and remitted to the City in the following month. The Sales Tax remittance in January is considered both measurable and available and is therefore accrued as revenue at year-end.

**Grant Revenues** - Under Section G60.109 of the Codification of Governmental Accounting and Financial Reporting Standards, revenues for cost reimbursement grants are determined to be earned and, therefore, available at the time related expenditures are incurred. For this reason, grant revenues to be received as reimbursement for expenditures incurred in the current year are also recognized as revenue in that year.

**Shared Revenues** - Revenues that have been collected by the State, but not remitted by an intermediary collection agency to the City, are considered measurable and available.

**Other Revenue Sources** - Other items recognized as revenue in the current year on the modified accrual basis include investment interest earned but not received at year end; inter-fund, and intergovernmental service billings related to services provided in the current year which are outstanding at year end; and any other material revenue amounts determined to be both measurable and available under current modified accrual accounting practices. Revenues not considered to meet the criteria for recognition on the modified accrual basis include licenses and permits, fines and forfeitures, and other miscellaneous revenues which are generally not measurable until received.

### Proprietary Funds

The proprietary fund statements are reported using the economic resources measurement focus and full-accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when liability is incurred regardless of the timing of the cash flows.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City are primarily user charges, and the cost of providing goods or services to the general public on a continuing basis. Operating expenses for enterprise and internal service funds includes the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

### Other Disclosure

The City was neither the lessor nor lessee in capital leases; did not capitalize interest on qualifying assets for business-type activities; has not been the recipient of an endowment; did not engage in short-term debt activity during the year; has not issued special assessment debt; does not benefit from on-behalf payment; has not pledged future revenues; has not incurred an obligation for pollution remediation; had no hedging derivatives; is not the transferor or operator in a service concession arrangement; and does not provide other post-employment benefits (OPEB), and was not the transferor or continuing government in a merger, transfer of operation, etc.

## BUDGETARY INFORMATION

### Scope of Budget

Annual appropriated budgets are adopted for the general, some special revenue, and debt service funds on the modified accrual basis of accounting. For governmental funds, there are no differences between the budgetary basis and generally accepted accounting principles. Budgets for debts service and capital project funds are adopted at the level of the individual debt issue or project and for fiscal periods that correspond to the lives of debt issues or projects.

Legal budgetary control is established at the fund level, i.e., expenditures for a fund may not exceed the total appropriation amount. Any unexpended appropriation balances for annually budgeted funds lapse at the end of the year. Appropriations for other special purpose funds that are non-operating in nature are adopted on a "project-length" basis and, therefore, are carried forward from year to year without re-appropriation until authorized amounts are fully expended or the designated purpose of the fund has been accomplished.

The individual funds within each fund type which are included in the City's biennial operating budget (funds budgeted on an annual basis) are:

General Fund	Special Revenue Funds	Debt Service Fund	Capital Project Funds
	- <i>Street Fund</i>	- <i>Debt Fund</i>	- <i>Downtown Redevelopment</i>
	- <i>Arterial Street</i>		- <i>City Facilities</i>
	- <i>Utility Tax</i>		- <i>Parks</i>
	- <i>Solid Waste &amp; Recycling</i>		- <i>Transportation</i>
	- <i>Special Contracts / Studies</i>		- <i>Capital Project Reserve</i>
	- <i>Hotel/Motel Lodging Tax</i>		- <i>Performing Arts &amp; Event Center</i>
	- <i>Federal Way Community Center</i>		- <i>Surface Water Management</i>
	- <i>Traffic Safety</i>		- <i>Real Estate Excise Tax</i>
	- <i>Community Development Block Grant</i>		
	- <i>Paths &amp; Trails</i>		



Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end do not constitute expenditure or liabilities because the commitments will be reappropriated and honored during the subsequent year.

### **Procedures for Adopting the Biennial Budget**

The City's budget process and the time limits under which the budget must be prepared are defined by the Revised Code of Washington (RCW) 35A.33. The procedures followed in establishing the annual budget are described below:

- By late May the official budget call is made by the Finance Director for current level service budgets and a preliminary financial forecast.
- By late June, departments submit their preliminary expenditure estimates and the Finance department updates the preliminary revenue estimates to define resources available to finance coming year expenditure programs.
- By the first Tuesday in October, the Mayor submits a proposed budget to the City Council. This budget is based on priorities established by the Council and estimates provided by City departments during the preceding months, and balanced with revenue estimates made by the Finance Director. Copies of the preliminary budget are provided to the City Council and made available to staff and the public.
- City Council conducts workshops and public hearings on the proposed budget between mid-September and mid-December.
- No later than the third Monday in November, the City Council must adopt an ordinance to establish the amount of property taxes to be levied in the coming year.
- No later than the first two weeks of November, the City Clerk publishes a notice of the filing of the preliminary budget and notices of public hearings to be held during preliminary budget deliberations.
- Two public hearings on the proposed budget are also held during November and December. Final hearings on the budget must begin on or before the first Monday of December, and may continue until the 25th day prior to beginning of the next fiscal year.
- By December 31, the City Council makes its adjustments to the proposed budget and adopts a final budget by ordinance.
- The final operating budget, as adopted, is published and distributed within the first three months of the following year. Copies of the adopted budget are made available to the public.

### **Amending the Budget**

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

When the City Council determines that it is in the best interest of the City to increase or decrease the appropriation for a particular fund, it may do so by ordinance approved by one or more than the majority after holding public hearing(s).

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

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

## ASSETS, LIABILITIES, FUND BALANCE, NET POSITION

### Cash and Investments

The City follows the practice of pooling cash and investments of all funds for investment purposes, except for cash held in escrow, which is disclosed separately on the balance sheet. Each fund's portion of total cash and investments is summarized by fund type in the combined balance sheet as equity in pooled cash and investments.

It is the City's policy to invest all cash not immediately required for disbursement. At December 31, 2016, the State Treasurer was holding \$61,992,807 in the Local Government Investment Pool. The amount is classified on the balance sheet as cash and cash equivalents in various funds. The interest on these investments is prorated to the various funds based on the average monthly balance for each fund.

The amounts reported as cash and cash equivalents also include compensating balances maintained with certain banks in lieu of payments for services rendered. The average compensating balances maintained during the 2016 were approximately \$13 million.

For purposes of the Statement of Cash Flows, the City considers all highly liquid investments with a maturity of three months or less when purchased, to be cash equivalents. At December 31, 2016, the total cash and cash equivalents were \$73,077,850. In accordance with GASB Statement 79, LGIP investments are measured at amortized cost. See (Note 5 - *Deposits and Investments*).

### Receivables

Taxes receivable consists of property taxes and related interest and penalties (see Note 6 - *Property Tax*). Accrued interest receivable consists of amounts earned on investments, notes, and contracts at the end of the year.

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

### Amounts Due to and from Other Funds; Interfund Loans

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either *interfund loans receivable/payable* or *advances to/from other funds*. All other outstanding balances between funds are reported as *due to/from other funds*. Any other outstanding balances between the governmental activities and business-type activities are reported in the government-wide financial statements as *internal balances*. A separate schedule of inter-fund loans receivable and payable is furnished in Note 12, *Interfund Transactions*.

### Inventories and Prepaids

Inventories in the governmental funds are recorded as expendable supplies held for consumption. The cost is recorded as expenditure at the time individual inventory items are purchased. Amounts remaining at year-end are immaterial and, therefore, are not reflected on the balance sheets of those funds. There were no material inventories at year-end in the Internal Service or Enterprise Funds. The City currently uses the consumption method of accounting for prepaids.

### Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City of Federal Way as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one or more years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation. See Note 8, *Capital Assets*.

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

Cost of normal maintenance and repairs are not capitalized.



Depreciation on all capital assets is recorded as an allocated expense in the government-wide Statement of Activities and in the proprietary fund statements. Property, plant, and equipment of the primary government are depreciated using the straight line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Life in Years</u>
Computers.....	5-6
Printers & Faxes.....	7
Telecommunications Equipment.....	7
Police Radio Equipment.....	11
Other Office Equipment.....	4-10
Office Furniture and Fixtures.....	10
Recreation Equipment.....	10
Parks Equipment.....	6-10
Police Equipment.....	9-11
Shop/Miscellaneous Equipment.....	10-12
Heavy Work Equipment.....	10-16
Non-Police Vehicles.....	7
Police Patrol Vehicles.....	5
Police Non-Patrol Vehicles.....	7-10
Heavy Trucks.....	8-10
Land Improvements.....	20
Buildings.....	20
Infrastructure.....	15-100

### **Deferred Inflows of Resources**

A deferred inflow of resources is an acquisition of net assets by the government that is applicable to a future reporting period. See (Note 6 – *Property Tax*) and (Note 9 – *Pension Plans*)

### **Compensated Absences Payable**

The City records a liability for all outstanding vacation pay and accrued compensatory time. In governmental funds, vacation pay and compensatory time is recorded as expenditures when paid which occurs when used or upon termination. In the entity-wide statements and the proprietary fund statements, vacation pay and compensatory time is recorded as a liability and expense in the year earned.

Employee vacation leave is accumulated monthly at rates ranging from 12 to 27 days per year depending on term of employment. Employees may accumulate up to a maximum of 240 hours of vacation leave, except the Police Guild, who can accrue up to a maximum of 360 hours. Outstanding vacation leave is payable upon termination of employment at the following rate: City Employees up to 240 hours and Police Guild members will be paid out up to two years of their monthly vacation accrual rate.

A non-exempt employee may request compensatory time off in lieu of overtime payment. Compensatory time is accrued at a rate of one and one-half hours for each hour of overtime worked, to a maximum of eighty hours for both City employees and Police Guild members.

Sick leave may be accumulated up to a maximum of 720 hours for regular City employees per City policy and 1,040 hours for the Police Guild, per their contract. The monthly accrual rate for City employees is 8 hours per month. Accumulated sick leave is not payable upon termination of employment. Outstanding sick leave at year-end is not accrued due to the difficulty in estimating the portion of existing balances likely to result in expenditures in future periods. Compensated Absences Payable outstanding at year-end is outlined in Note 11.

### **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. See (Note 9 – *Pension Plans*).

### **Long-Term Liabilities**

In the government-wide financial statements and the proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statement of net position. See (Note 11 - *Long-Term Debt*).

### **Unearned Revenues**

Unearned revenue is a liability account that reports amounts received in advance of providing goods or services. For detailed information, See (Note 7 – *Unearned Revenues and Receivables*).

### **Fund Balance Classification**

Fund balance is a measurement of available financial resources and is the difference between total assets and total liabilities in each fund.

Beginning with the most restrictive constraints, fund balance amounts will be reported in the following categories:

*Nonspendable* – amounts that are not in a spendable form or are legally or contractually required to be maintained intact.

*Restricted* – amounts that can be spent only for the specific purposes stipulated by external parties either constitutionally or through enabling legislation.

*Committed* – amounts that can be used only for the specific purposes determined by formal action of the City Council through an ordinance or resolution. Commitments may be changed or lifted by the action of the City Council using the same formal action of ordinance or resolution that was used to create the commitment.

*Assigned* – amounts *intended* to be used by the government for specific purposes. Intent can be expressed by the City Council or the Mayor. In governmental funds other than the general fund, assigned fund balance represents the amount that is not restricted or committed. This indicates that resources in other government funds, at a minimum, are intended to be used for the purpose of that fund.

*Unassigned* – includes all amounts not contained in other classifications and is the residual classification of the general fund only. Unassigned amounts are available for any legal purpose.

The council can use a resolution to modify or rescind a fund balance commitment. When expenditure is incurred for which both restricted and unrestricted resources are available, it is the City's policy to use restricted resources first. When unrestricted (committed, unassigned) resources are available, it is the City's policy to spend committed resources first, and then unassigned, in that order. The minimum fund balance established by the Reserve Policy, and passed by resolution from the City Council, states "The City shall have an operating cash flow reserve of seventeen percent of the City's General Fund operating expenditures or \$9 million. In addition, the City shall have a contingency for unanticipated cost of \$1 million to cover revenue shortfalls resulting from unexpected economic change or recessionary periods, or to provide funds in the event of major unplanned expenditures the City could face as a result of natural disasters. The policy shall also include a strategic opportunities reserve of \$2 million to provide liquidity to respond to economic opportunity that is not budgeted for that may provide a long term economic benefit to the City. In the event that any of the Contingency or Strategic Opportunities Reserve is used, such appropriation shall be repaid to the fund annually over the next three years. The purpose of the ending fund balance is to provide financial stability, cash flow for operations and the assurance that the City will be able to respond to revenue shortfalls with fiscal strength." General fund expenditures at 12/31/2016 were \$44.9 million and Unassigned General fund balance at year-ended 2016 was \$13.8 million or (31%).

Other funds that have a significant minimum fund balance policy are: Street Fund - \$0.5 million; Arterial Street Fund - \$0.1 million; Utility Tax Fund - \$2.5 million, REET Fund – one year revenue reserve; Hotel/Motel Lodging Tax Fund - \$0.2 million; Community Center Fund - \$1.5 million; Traffic Safety Fund - \$1.5 million; Debt Service Fund – adequate reserve in accordance with bond ordinance or minimum of one year debt service amount; Dumas Bay Centre Fund - \$0.5 million; and Surface Water Management Fund – \$0.5 million.

The Government-wide statement of net position reports \$569.0 million of net position, of which \$21.4 million is restricted by the enabling legislation, and \$499.9 is for net investment in capital assets (there are no unspent proceeds of debt).

2016 FUND BALANCE CLASSIFICATION									
Fund Balance	General Fund	Street	Utility Tax	Debt Service	Downtown Redevelop.	Transportation	Performing Arts & Event Ctr	Nonmajor Gov't	Total
<b>Nonspendable:</b>									
Court trust	\$ 153,859	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	153,859
Prepaid insurance/debt service	33,425	-	-	-	-	-	-	-	33,425
<b>Restricted for:</b>									
Police covert/seizure	108,147	-	-	-	-	-	-	-	108,147
Future debt payments	-	-	-	2,508,514	-	-	-	-	2,508,514
Special Contracts/Studies	-	-	-	-	-	-	-	525,428	525,428
Hotel/Motel Lodging Tax	-	-	-	-	-	-	-	737,375	737,375
Path & Trails Reserves	-	-	-	-	-	-	-	568,722	568,722
Downtown Redevelopment	-	-	-	-	2,117,223	-	-	-	2,117,223
City Facilities CIP	-	-	-	-	-	-	-	29,593	29,593
Parks CIP	-	-	-	-	-	-	-	1,858,754	1,858,754
Transportation CIP	-	-	-	-	-	6,136,786	-	-	6,136,786
Performing Arts & Event Ctr	-	-	-	-	-	-	855,100	-	855,100
Real Estate Excise Tax	-	-	-	-	-	-	-	5,709,685	5,709,685
Community Development Block Gr	-	-	-	-	-	-	-	29,985	29,985
<b>Committed to:</b>									
Capital, debt, and operations	-	-	2,457,686	-	-	-	-	-	2,457,686
Petty cash/advance travel	21,600	-	-	-	-	-	-	-	21,600
Comm. Development Block Grant	-	-	-	-	-	-	-	35,844	35,844
Proposition 1	-	-	1,290,233	-	-	-	-	-	1,290,233
Transportation CIP	-	-	-	-	-	3,852,827	-	-	3,852,827
Downtown Redevelopment	-	-	-	-	1,877	-	-	-	1,877
Arterial Street	-	-	-	-	-	-	-	245,970	245,970
Solid Waste/Recycling	-	-	-	-	-	-	-	176,309	176,309
Federal Way Community Center	-	-	-	-	-	-	-	1,516,500	1,516,500
Traffic Safety	-	-	-	-	-	-	-	2,551,279	2,551,279
Snow/ice removal	-	526,511	-	-	-	-	-	-	526,511
Parks CIP	-	-	-	-	-	-	-	276,835	276,835
Performing Arts & Event Ctr	177,413	-	-	-	-	-	517,763	-	695,176
Capital Project Reserve	-	-	-	-	-	-	-	482,717	482,717
<b>Unassigned:</b>									
General Fund	13,794,955	-	-	-	-	-	-	-	13,794,955
<b>Total Fund Balance:</b>	<b>\$ 14,289,398</b>	<b>\$ 526,511</b>	<b>\$ 3,747,919</b>	<b>\$ 2,508,514</b>	<b>\$ 2,119,100</b>	<b>\$ 9,989,613</b>	<b>\$ 1,372,863</b>	<b>\$ 14,744,996</b>	<b>\$ 49,298,914</b>

### Interfund Transactions

There are four types of transactions between funds – inter-fund loans, inter-fund services provided and used, inter-fund reimbursements, and inter-fund transfers. Interfund loans are temporary borrowings of cash which do not affect operating statements, but which may incur interest expense or expenditure to the borrowing fund. Interfund services provided and used are equivalent to buying goods or services from an outside vendor, and are accounted for by the related funds as revenues, expenditures or expenses. Interfund reimbursements are repayments to a fund for expenditures or expenses that belong to another fund. They involve only expenditure or expense accounts. The transfers are accounted for as "other financing sources and uses" and are therefore included in the operating statements (see Note 12).

**NOTE 2 – RECONCILIATION OF GOVERNMENT-WIDE & FUND FINANCIAL STATEMENTS****Explanation of Certain Differences between the Governmental Funds Balance Sheet and the Government-Wide Statement of Net Position**

The governmental funds' balance sheet includes 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 the 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 \$46,365,490 difference are as follows:

Bonds Payable & Premium at beginning of year	\$ 34,024,220
Plus: Inclusion of compensated absences	2,032,808
Plus: Current year addition/reduction of principal portion of debt & premium	2,030,892
Plus: Net Pension Liability	11,893,469
Plus: Deferred Inflows of Resources Related to Pensions	319,074
Less: Deferred Outflows of Resources Related to Pensions	(3,934,973)
Net Adjustment to reduce fund balances- <i>total governmental funds to arrive at net position - governmental activities</i>	<u>\$ 46,365,490</u>

**Explanation of Certain Differences between the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-Wide Statement of Activities**

The governmental funds' statement of revenues, expenditure, and changes in fund balances includes 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 those assets is allocated over their estimated useful lives and reported as depreciation expense.” The details of this \$19,431,185 difference are as follows:

Capital outlay	\$ 26,745,849
Plus: Contributed Capital	763,318
Less: Loss on Capital	(386,346)
Less: Governmental depreciation expense	(7,603,488)
Less: Decrease in investment in joint venture	(88,148)
Net adjustment to increase net changes in fund balances - <i>Total governmental funds to arrive at changes in net position of governmental activities</i>	<u>\$ 19,431,185</u>

Another element of the reconciliation states that “Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.” This item presents:

Property taxes earned reported as deferred inflow of resources in the fund statements	<u>\$ 7,837</u>
---	-----------------

Another element of the 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 funds.” This item represents:

Compensated absences	<u>\$ (111,318)</u>
Adjustment for GASB 68 pension reporting	<u>\$ 117,883</u>

**NOTE 3 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

There have been no material violations of finance-related legal or contractual provisions, and there have been no expenditures exceeding legal appropriations in any of the funds of the City.

**NOTE 4 – SUPPLEMENTAL APPROPRIATIONS****Operating Budget Funds**

Appropriations established during 2016 for the City's operating budget funds are provided below. As explained in Note 1, both original and supplemental appropriations are adopted by the City Council by ordinance. Both original and final budget appropriations are shown on the accompanying financial statements. The final budget values include all adopted adjustments to original budget amounts. This table does not include transfers out or Proprietary Funds.

FUND	2016		
	ORIGINAL BUDGET	SUPPLEMENTAL APPROPRIATIONS	FINAL BUDGET
<i>General Fund</i>	\$ 40,887,400	\$ 5,058,133	\$ 45,945,533
<i>Special Revenue Funds:</i>			
Street Fund	3,990,942	99,504	4,090,446
Arterial Street Fund	1,515,500	-	1,515,500
Utility Tax Fund	2,898,284	80,066	2,978,350
Solid Waste/Recycling Fund	489,980	(25,358)	464,622
Special Contracts / Studies	-	50,000	50,000
Hotel/Motel Lodging Tax	200,300	-	200,300
Federal Way Community Center	2,199,112	144,529	2,343,641
Traffic Safety	2,169,881	170,372	2,340,253
Community Development Block Grant	1,237,103	-	1,237,103
Paths & Trails	-	-	-
<i>Subtotal Special Revenue Funds:</i>	14,701,102	519,113	15,220,215
<i>Debt Service Fund</i>	1,721,538	(906,415)	815,123
<i>Capital Project Funds:</i>			
Real Estate Excise Tax	-	-	-
Downtown Redevelopment	-	136,123	136,123
City Facilities	-	53,232	53,232
Parks	300,000	3,239,945	3,539,945
Transportation	14,585,000	15,142,932	29,727,932
Capital Project Reserve	-	-	-
Performing Arts & Event Center	-	15,630,777	15,630,777
<i>Subtotal Capital Project Funds:</i>	14,885,000	34,203,009	49,088,009
<b>Total:</b>	<b>\$ 72,195,040</b>	<b>\$ 38,873,840</b>	<b>\$ 111,068,880</b>

**NOTE 5 – DEPOSITS AND INVESTMENTS**

As required by state law, all deposits and investments of the City's funds are obligations of the U.S. Government, the Local Government Investment Pool (LGIP), bankers' acceptances, or deposits with Washington State banks and savings and loan institutions. In 2016 the City utilized all the above with the exception of bankers' acceptances as legal authorized investment instruments. The City's investment policies are described in Note 1.

**Cash and Deposits**

The City follows the practice of pooling cash and investments of all funds, except restricted funds and funds held with a trustee or in escrow, for investment purposes as disclosed in Note 1. At December 31, 2016, the equity in pooled cash and investments was \$73,077,850.

At year-end, the City had \$72,171,532 in cash and cash equivalents which consisted of investments with the LGIP of \$61,992,807 the City's checking account bank balance prior to outstanding checks was \$9,975,756; deposit account of \$250, petty cash and change funds, advance travel fund and investigative fund totaling \$48,860, and Court Trustee Fund of \$153,859. Cash held with an escrow agent is \$906,318. No deposits were uninsured or uncollateralized. Insurance coverage up to \$250,000 is through federal depository insurance and the Washington Public Deposit Protection Commission (WPDPC) covers amounts over \$250,000. Under State statute, members of WPDPC, a multiple-financial institution collateral pool, may

be assessed on a prorated basis if the pool's collateral is insufficient to cover a loss. Investments are carried at cost or book value because the City holds all investments until maturity.

In accordance with GASB Statement 79, LGIP is reported on amortized cost basis. Furthermore, the City can invest and withdraw their investments on a daily basis with a limit of one transaction per business day and minimum transaction amount of five thousand dollars. There is no maximum transaction amount, but an investment or withdrawal of ten million dollars or more, a one-day notification prior to the transfer date is requested, but not required.

The State Treasurer's Office administers the Washington State LGIP authorized under Chapter 43.250 RCW. The LGIP operates in a manner consistent with the SEC Rule 2a-7. In its management of LGIP, the State Treasurer adheres to the principles appropriate for the prudent investment of public funds. In priority order, they are the safety of principal, the assurance of sufficient liquidity to meet cash flow demands.

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

**SCHEDULE OF INVESTMENTS BY MATURITIES  
AS OF DECEMBER 31, 2016**

Investment Type	Book Value	Investment maturities		
		Less than 1 year	1 to 2 years	Greater than 3 years
State Investment Pool	\$ 61,992,807	\$ 61,992,807	\$ -	\$ -
	\$ 61,992,807	\$ 61,992,807	\$ -	\$ -
<b>Reconciliation of Government-Wide Statement of Net Position:</b>				
Key Bank checking account per books		\$ 9,975,756		
Key Bank deposit account		\$ 250		
Petty cash/change fund/advance travel/investigative fund		48,860		
Local Government Investment Pool		61,992,807		
Municipal Court Trust on books		153,859		
Subtotal cash and cash equivalents		72,171,532		
Cash with escrow agent		906,318		
Total cash and investments, Government-Wide				
<b>Statement of Net Position</b>		<b>\$ 73,077,850</b>		

## Investments

### Investments Measured at Amortized Cost

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

**SCHEDULE OF INVESTMENTS BY TYPES  
AS OF DECEMBER 31, 2016**

Investment Type	Weighted Average Maturities (Days)	Cost	Investments	Total
State Treasurer's Investment Pool	30	\$ 61,992,807	\$ 61,992,807	\$ 61,992,807
		\$ 61,992,807	\$ 61,992,807	\$ 61,992,807

### Custodial Credit Risk

The risk that in event of a failure of the counterparty to an investment transaction the City would not be able to recover the value of the investment of collateral securities. As of December 31, 2016, the City is not exposed to custodial credit risk as there are not investments held with a brokerage firm or counterparty.

### Interest Rate Risk

As a means of limiting its exposure to fair value losses arising from rising interest rates, the City's investment policy states that "no more than 20% of the portfolio may be invested beyond 12 months, and average maturity of the portfolio may not exceed 2 years."

### Credit Risk

Credit risk is the risk that an issuer or other counter-party has to an investment in not fulfilling its obligations. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. State law and the City's investment policy limits the instruments in which the City may invest. The following are categories of investments authorized under the City's policy, in general order of safety and liquidity: Local Government Investment Pool (LGIP); repurchase agreements; U.S. treasury obligations; U.S. government agencies; U.S. government-sponsored corporations/instrumentalities;

bankers' acceptances (secondary market domestic and foreign); commercial paper (secondary market); insured certificates of deposit (banks and savings & loans); and uninsured/collateralized certificates of deposit (banks and savings & loans).

The credit risk of the State Investment Pool is limited to obligations of the US Government, government sponsored enterprises, or insured demand deposit accounts and certificates of deposit.

As of December 31, 2016 all City investments were in the LGIP. The LGIP is unrated. LGIP is comparable to Securities Exchange Commission 2a-7 to minimize credit risk.

#### Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. The investment policy states: "no more than 5% of the portfolio may be invested in the securities of a single issuer, except for the U.S. Treasury, to which no limits apply, and commercial paper, which is limited to 3% of the portfolio in accordance with state law. No more than 30% of the portfolio may be invested in bankers' acceptances and certificates of deposit." The City currently only invests in LGIP.

#### Other Information

Below is a schedule of investments by fund type:

<b>SCHEDULE OF INVESTMENTS BY FUND CATEGORY AND INVESTMENT TYPE AS OF DECEMBER 31, 2016</b>			
<b>Fund Type</b>	<b>State Investment Pool</b>		<b>Total</b>
General Fund	\$	12,761,653	\$ 12,761,653
Other Major Funds		16,212,766	16,212,766
Special Revenue Funds		5,781,552	5,781,552
Capital Projects Funds		7,047,055	7,047,055
Enterprise Funds		5,682,520	5,682,520
Internal Services Funds		14,507,263	14,507,263
<b>Total:</b>	<b>\$</b>	<b>61,992,807</b>	<b>\$ 61,992,807</b>

#### **NOTE 6 – PROPERTY TAXES**

The King County Treasurer is responsible for collecting property taxes levied in the County by all taxing districts. Amounts collected by the County on the City's behalf are remitted daily.

#### **PROPERTY TAX CALENDAR**

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

As described in Note 1, taxes are levied and become an enforceable lien against properties as of January 1. Annual tax billings may be paid in two equal installments, due April 30 and October 31. At December 31, 2016, the balance of property taxes receivable recorded by the City was \$222,787. Of this, \$204,880 is recorded as deferred inflow of resources, since it was not collected within the first 30 days of the end of 2016.

Property taxes are recorded as a receivable when levied, offset by deferred inflow of resources. During the year, property tax revenues are recognized when cash is collected. At year-end, property tax revenues are recognized for collections expected to occur within 30 days. No allowance for uncollectible taxes is established because delinquent taxes are considered fully collectible.

Under State law, the maximum levy (for general governmental services) is up to \$3.60 per \$1,000 of assessed valuation, subject to two limitations, set forth below. Since the City of Federal Way is not a full service city, the City is only allowed \$1.60. The remaining \$2.00 is for the fire district (\$1.50) and library district (\$0.50).

- Chapter 84.55 of the State RCW was amended most recently by Initiative No. 747 (which was passed by voters on November 6, 2001), limits the total dollar amount of regular property taxes levied by the City to the amount of such taxes levied in the three most recent years multiplied by a limit factor, plus an adjustment to account for taxes on new construction, improvements and state-assessed property at the previous year's rate. As amended by Initiative No.



747, the limit factor is the lesser of 101% or 100% plus the percent change in the Implicit Price Deflator, unless a greater amount is approved by a simple majority of the voters; and

- The Washington State Constitution limits the total regular property taxes to 1% of assessed valuation or \$10 per \$1,000 of value. If the taxes of all districts exceed this amount, each is proportionately reduced until the total is at or below the 1% limit.

For levy year received in 2016, the City's regular tax levy was \$1.18504 per \$1,000 on a 2015 assessed valuation of \$8,905,294,058 for a total regular levy of \$10,487,319.

#### Deferred Inflow of Resources

The table below provides details of the deferred inflow of resources as reported on the fund financial statements.

DEFERRED INFLOW OF RESOURCES AS OF DECEMBER 31, 2016			
Deferred Inflow	General	Downtown Redev.	Total General Govt
Property tax	\$ 204,879	\$ 1	\$ 204,880
<b>Total by Fund:</b>	<b>\$ 204,879</b>	<b>\$ 1</b>	<b>\$ 204,880</b>

#### NOTE 7 – UNEARNED REVENUES AND RECEIVABLES

##### Unearned Revenues

The table below provides details of the unearned revenues as reported on the statement of net position.

UNEARNED REVENUES AS OF DECEMBER 31, 2016							
Unearned Revenues	General	Street	Nonmajor Gov't	Total General Govt	Surface Water Mgmt	Dumas Bay Centre	Total Proprietary
SWM fees	-	-	-	-	116,725	-	116,725
Legal/Other	22,354	-	-	22,354	-	-	-
Commute Trip Reduction Grant	-	70,515	-	70,515	-	-	-
Recreation programs / facility rentals	46,755	-	142,463	189,218	-	285,518	285,518
Total by Fund:	\$ 69,110	\$ 70,515	\$ 142,463	\$ 282,088	\$ 116,725	\$ 285,518	\$ 402,243

##### Receivables & Due from Other Governments

The receivables for the fiscal year ended December 31, 2016 on the government-wide statement of net position are detailed in the following schedule.

RECEIVABLES & DUE FROM OTHER GOVERNMENTS AS OF DECEMBER 31, 2016								
Receivable	General	Street	Utility Tax	Downtown Redevelopment	Transport- ation	Nonmajor Gov't	Proprietary	Total
Property tax	\$ 222,787	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 222,787
Real Estate Excise tax	-	-	-	-	-	252,801	-	252,801
Utility tax	-	-	1,292,387	-	-	-	-	1,292,387
Gambling tax	21,465	-	-	-	-	-	-	21,465
Recreation programs/ facilities	52,443	-	-	-	-	7,357	19,283	79,082
Grants & contributions	88,421	-	-	-	2,774,626	254,782	381,123	3,498,953
Off Duty security & Other receivable	404,355	62,020	-	-	-	21,000	-	487,375
Utility construction contract receivable	-	-	-	-	872,615	-	-	872,615
State Shared revenue	1,593,338	85,630	1,011	71,205	612,596	58,050	-	2,421,829
Surface Water Management fees	-	-	-	-	-	-	133,325	133,325
<b>Total by Fund:</b>	<b>\$ 2,382,808</b>	<b>\$ 147,650</b>	<b>\$ 1,293,398</b>	<b>\$ 71,205</b>	<b>\$ 4,259,837</b>	<b>\$ 593,990</b>	<b>\$ 533,731</b>	<b>\$ 9,282,619</b>



**NOTE 8 – CAPITAL ASSETS**

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

<b>CAPITAL ASSETS AS OF DECEMBER 31, 2016</b>				
<b>Governmental Activity</b>	<b>Adjusted Beginning Balance 1/1/2016</b>	<b>Additions</b>	<b>Deletions</b>	<b>Ending Balance 12/31/2016</b>
Capital Assets, not being depreciated:				
Land	\$279,352,221	\$2,070,269	\$ -	\$281,422,490
Construction in progress	15,697,231	24,624,826	(4,721,567)	35,600,490
Total capital assets, not being depreciated:	\$295,049,452	\$26,695,095	\$ (4,721,567)	\$317,022,980
Capital assets, being depreciated:				
Buildings	39,749,163	259,185	(15,808)	39,992,540
Improvements other than buildings	25,091,751	1,358,773	-	26,450,524
Infrastructure	169,816,179	2,856,716	(128,721)	172,544,174
Machinery & equipment	18,063,581	2,480,242	(1,903,375)	18,640,448
Total capital assets, being depreciated:	252,720,674	6,954,916	(2,047,904)	257,627,686
Less accumulated depreciation for:				
Buildings	(16,847,772)	(1,938,835)	15,808	(18,770,799)
Improvements other than buildings	(15,813,011)	(1,171,057)	-	(16,984,068)
Infrastructure	(58,903,262)	(5,319,379)	62,164	(64,160,477)
Machinery & equipment	(12,032,937)	(1,446,045)	1,903,375	(11,575,607)
Total accumulated depreciation:	(103,596,982)	(9,875,316)	1,981,347	(111,490,951)
Total assets being depreciated, net	149,123,692	(2,920,400)	(66,557)	146,136,735
<b>Governmental activities capital assets, net</b>	<b>\$444,173,145</b>	<b>\$23,774,695</b>	<b>(\$4,788,124)</b>	<b>\$463,159,715</b>
<b>Business-Type Activities</b>	<b>Adjusted Beginning Balance 1/1/2016</b>	<b>Additions</b>	<b>Deletions</b>	<b>Ending Balance 12/31/2016</b>
Capital Assets, not being depreciated:				
Land	\$11,013,528	\$218,965	\$ -	\$11,232,493
Construction in progress	2,844,949	615,121	(3,438,348)	21,722
Total capital assets, not being depreciated:	\$13,858,477	834,086	(3,438,348)	11,254,215
Capital assets, being depreciated:				
Buildings	3,600,864	904,483	-	4,505,347
Improvements other than buildings	2,831,681	1,081,691	-	3,913,372
Infrastructure	56,847,003	1,548,597	-	58,395,600
Machinery & equipment	122,200	52,945	-	175,145
Total capital assets, being depreciated:	63,401,747	3,587,717	-	66,989,464
Less accumulated depreciation for:				
Buildings	(3,281,550)	(150,742)	-	(3,432,292)
Improvements other than buildings	(213,247)	(28,317)	-	(241,564)
Infrastructure	(14,544,843)	(568,470)	-	(15,113,313)
Machinery & equipment	(104,165)	(4,340)	-	(108,505)
Total accumulated depreciation:	(18,143,805)	(751,869)	-	(18,895,674)
Total assets being depreciated, net	45,257,942	2,835,848	-	48,093,790
<b>Business-Type activities capital assets, net</b>	<b>\$59,116,419</b>	<b>\$3,669,934</b>	<b>(\$3,438,348)</b>	<b>\$59,348,005</b>

At the end of 2016, 16 projects comprise the Construction in Progress for Governmental Activities. Upon completion, the projects will be capitalized in the Government-wide statements in their appropriate categories. Construction commitments for Governmental Activities as of December 31, 2016, are as follows:

AS OF DECEMBER 31, 2016		
Governmental Activities Projects	Construction in progress	Remaining Commitment
Performing Arts & Event Center	\$ 20,083,924	\$ 12,651,766
Trail and pedestrian access improvements	265,914	1,071,324
S 320th St @ 20th Ave South	2,394,351	612,542
10th Avenue SW / SW 344th St: SW Campus Drive - 21st Ave SW	318,532	931
S 352nd Street Extension From SR-99 to SR-161	3,956,686	265,000
South 356th St: SR99 - SR161	552,184	2,068,354
SR99 HOV Lanes Phase 5	4,693,963	5,237,016
SW 336th Way / SW 340th St: 26th Pl SW - Hoyt Rd	143,102	60,788
S 314th St: 20th Ave S - 23rd Ave S - Install New Sidewalks	163,480	11,520
Citywide Pedestrian Crossing Improvements	426,163	728,704
S 344th Way @ Weyerhaeuser Way S	281,685	-
School Zone Enhancements	181,305	205,000
21st Ave S Sidewalks	134,363	59,495
Sacajawea Safe Routes to Schools	1,191,776	279,558
Citywide Flashing Yellow Retrofits Project	738,211	2,114
Steel Lake Park to Downtown Trail Project	74,850	663,000
<b>Total Governmental Activities</b>	<b>\$ 35,600,490</b>	<b>\$ 23,254,112</b>

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

CAPITAL ASSETS DEPRECIATION BY TYPE AS OF DECEMBER 31, 2016	
Governmental and Internal Service Activities	
General Government	\$173,327
Security of Persons & Property	1,360,893
Transportation	5,592,741
Physical Environment	17,279
Economic Environment	121,403
Health	57,167
Culture & Recreation	2,552,507
<b>Total Depreciation - Governmental Activities</b>	<b>\$9,875,316</b>
Business-Type Activities	
Utilities - Surface Water Management	\$594,630
Culture & Recreation - Dumas Bay Centre	157,239
<b>Total Depreciation - Business-Type Activities</b>	<b>\$ 751,869</b>

**NOTE 9 – 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:

<b>Aggregate Pension Amounts – All Plans</b>	
Pension liabilities	(\$13,477,730)
Pension assets	\$2,418,256
Deferred outflows of resources	\$4,242,095
Deferred inflows of resources	(\$347,615)
Pension expense/expenditures	\$2,461,848

**State Sponsored Pension Plans**

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

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

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

downloaded from the DRS website at [www.drs.wa.gov](http://www.drs.wa.gov).

**Public Employees' Retirement System (PERS)**

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

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

Contributions

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

<b>PERS Plan 1</b>		
<b>Actual Contribution Rates:</b>	<b>Employer</b>	<b>Employee*</b>
PERS Plan 1	6.23%	6.00%
PERS Plan 1 UAAL	4.77%	6.00%
Administrative Fee	0.18%	
<b>Total</b>	<b>11.18%</b>	<b>6.00%</b>

\* For employees participating in Judicial Benefit Multiplier (JBM), the contribution rate was 12.26%

The City of Federal Way's actual PERS plan contributions were \$663,133 to PERS Plan 1 for the year ended December 31, 2016.

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

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

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

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

#### Contributions

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

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

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

The City of Federal Way's actual PERS plan contributions were \$866,073 to PERS Plan 2/3 for the year ended December 31, 2016.

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

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

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

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

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

#### Contributions

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

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

#### Contributions

The **LEOFF Plan 2** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2. The employer rate included an administrative expense component set at 0.18 percent. Plan 2 employers and employees are required to pay at the level adopted by the LEOFF Plan 2 Retirement Board. The LEOFF Plan 2 required contribution rates (expressed as a percentage of covered payroll) for 2016 were as follows:

<b>LEOFF Plan 2</b>		
<b>Actual Contribution Rates:</b>	<b>Employer</b>	<b>Employee</b>
State and local governments	5.05%	8.41%
Administrative Fee	0.18%	
<b>Total</b>	<b>5.23%</b>	<b>8.41%</b>

The City of Federal Way's actual contributions to the plan were \$669,609 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 of Federal Way as its proportionate share of this amount is \$414,672.

#### **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%
	<b>100%</b>	

### Sensitivity of the Net Pension Liability/(Asset)

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

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
PERS 1	\$7,383,441	\$6,122,767	\$5,037,879
PERS 2/3	\$13,541,808	\$7,354,962	(\$3,828,682)
LEOFF 2	\$6,781,453	(\$2,418,255)	(\$9,352,163)



**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 Federal Way's reported a total pension liability of \$13,477,730 total pension net asset of \$2,418,256 for its proportionate share of the net pension liabilities and net pension asset as follows:

	<b>Liability (or Asset)</b>
PERS 1	\$6,122,767
PERS 2/3	\$7,354,963
LEOFF 2	(\$2,418,256)

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

	<b>Liability (or Asset)</b>
LEOFF 2 – employer's proportionate share	(\$2,418,256)
LEOFF 2 – State's proportionate share of the net pension liability/(asset) associated with the employer	(\$1,576,526)
<b>TOTAL</b>	<b>(\$3,994,782)</b>

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

	<b>Proportionate Share 6/30/15</b>	<b>Proportionate Share 6/30/16</b>	<b>Change in Proportion</b>
PERS 1	0.110831%	0.114008%	0.003177%
PERS 2/3	0.143122%	0.146079%	0.002957%
LEOFF 2	0.427847%	0.415772%	-0.012075%

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 39.46 percent of LEOFF 2 employer contributions pursuant to RCW 41.26.725 and all other employers contributed the remaining 60.54 percent of employer contributions.

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

**Pension Expense**

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

	<b>Pension Expense</b>
PERS 1	\$183,976
PERS 2/3	\$1,486,668
LEOFF 2	\$791,204
<b>TOTAL</b>	<b>\$2,461,848</b>

**Deferred Outflows of Resources and Deferred Inflows of Resources**

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

<b>PERS 1</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$0	\$0
Net difference between projected and actual investment earnings on pension plan investments	\$154,162	\$0
Changes of assumptions	\$0	\$0
Changes in proportion and differences between contributions and proportionate share of contributions	\$0	\$0
Contributions subsequent to the measurement date	\$333,084	\$0
<b>TOTAL</b>	<b>\$487,246</b>	<b>\$0</b>

<b>PERS 2/3</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$391,647	\$242,799
Net difference between projected and actual investment earnings on pension plan investments	\$900,035	\$0
Changes of assumptions	\$76,020	\$0
Changes in proportion and differences between contributions and proportionate share of contributions	\$311,277	\$0
Contributions subsequent to the measurement date	\$435,035	\$0
<b>TOTAL</b>	<b>\$2,114,013</b>	<b>\$242,799</b>

<b>LEOFF 2</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$331,366	\$0
Net difference between projected and actual investment earnings on pension plan investments	\$868,976	\$0
Changes of assumptions	\$9,118	\$0
Changes in proportion and differences between contributions and proportionate share of contributions	\$81,415	\$104,816
Contributions subsequent to the measurement date	\$349,961	\$0
<b>TOTAL</b>	<b>\$1,640,836</b>	<b>\$104,816</b>

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

<b>Year ended December 31:</b>	<b>PERS 1</b>
2017	(\$37,958)
2018	(\$37,958)
2019	\$141,581
2019	\$88,496
<b>TOTAL</b>	<b>\$154,162</b>

<b>Year ended December 31:</b>	<b>PERS 2/3</b>
2017	\$125,060
2018	\$125,060
2019	\$753,664
2019	\$432,394
<b>TOTAL</b>	<b>\$1,436,179</b>



Year ended December 31:	LEOFF 2
2017	(\$20,468)
2018	(\$20,468)
2019	\$709,361
2020	\$485,688
2021	\$31,949
<b>TOTAL</b>	<b>\$1,186,061</b>

#### **Other Local Government Pension Systems - City of Federal Way Employees' Retirement System**

Effective June 1, 1990, the Federal Way City Council established the Federal Way Employees' Retirement System, per City Ordinance 90-74 and as authorized by the Federal Social Security Act (42 USCA, Section 418 (g)). The Retirement System is a defined contribution pension plan established as an alternative to the Federal Social Security System.

During 2016 on average, there were a total of 315 individuals covered by this system. As of the end of the year, there were 323 active employees of the City and four were drawing retirement benefits. During the year 31 employees left the City's employment and either had been reimbursed their contributions, reimbursement was pending, or they elected to have their contributions remain in the plan if the balance was \$1,000 or greater.

All regular employees of the City of Federal Way are required to participate in the system, with the City matching the employee's required contribution. The employee pays 6.2% and this is matched by the composite of a cash match (approximately 5.2%) and insurance payments (1%) for disability, survivor, accidental death and dismemberment, and lump sum death benefit coverage. Contributions into the plan are tax deferred.

Employees are entitled to make voluntary contributions to the plan, assuming that highly compensated and non-highly compensated employees are treated equally. Each payroll period, employees may make a voluntary contribution equal to a minimum of 1% of the participant's compensation, not to exceed 10% of the participant's compensation.

Covered payroll for 2016 was \$28,118,293, and excluding PERS, LEOFF, FWRS, deferred comp, flex plan, and section 125 covered payroll was \$24,228,238. Total City payroll was \$28,856,970. Actual City contributions for the year were \$1,365,471. Actual employee contributions were \$1,628,063. All contributions were invested in instruments arranged through independent investment advisors selected by the Municipal Employers Benefit Trust (MEBT) committee comprised of the entities of Bellevue, Kirkland, Redmond, Edmonds, Mill Creek, Woodinville, Federal Way, and North East King County Regional Public Safety Communication Agency (NORCOM) but administered by Northwest Plan Services (NWPS). Retirement System assets are not the property of the City and are not subject to the claims of the City's general creditors. The Federal Way Retirement System assets are with Security Trust Company, N.A. who invests Plan assets. MEBT can be contacted for additional information at (877)-690-5410.

In July 1995, the City implemented the hardship withdrawal and loan provision program that allow participants to have limited access to their contributions while still employed by the City. Hardship withdrawals are available in the event of financial necessity resulting from uninsured medical expenses, tuition expenses, purchasing one's primary residence, or to prevent foreclosure on one's primary residence. Loans receivable as of December 31, 2016 were \$1,486,676. After 5 years an employee becomes 100% vested in their employer contributions. Also an employee becomes 100% vested when they reach their normal retirement date (the earlier of age 65 or the earliest service retirement date under any other retirement benefit program to which the City contributes on the employees behalf).

The consulting actuary firm of Northwest Plan Services (NWPS) has been contracted to provide record keeping, administrative and consulting services related to the Plan Actuarial determinations are not required because accidental death and dismemberment insurance, long-term disability, survivor income insurance and the lump sum death benefit are provided by a group insurance policy with Standard Insurance Company; and benefits paid to participants upon retirement are limited to: (a) a nonforfeitable, nontransferable annuity contract purchased by the plan's trustee, (b) retirement benefits payable from the employee's account to which no contributions by the City or the participant can be added after retirement, or a single lump-sum payment equal to the accumulated balance in the employee's account as of his retirement date.

**NOTE 10 – RISK MANAGEMENT**

The City uses the Risk Management Internal Service Fund to account for its risk financing activities. The City maintains insurance against most normal hazards. The City faces most of the risks faced by similar sized cities including general liability for bodily injury, law enforcement – auto liability and property liability.

Through its Risk Management Fund, the City records insurance premium costs for general liability coverage and builds reserves for future claims, self-insured retention, and a future general liability self-insurance program.

There were no settlements in excess of insurance for commercially insured activities for 1996 through 2016. The fund balance for the Risk Fund as of 12/31/2016 is \$1.09 million.

The following is a summary of coverage in force in 2016.

<b>SCHEDULE OF INSURANCE IN FORCE AS OF DECEMBER 31, 2016</b>			
<b>Company</b>	<b>Policy Period</b>	<b>Details of Coverage</b>	<b>Liability Limits</b>
Argonaut	12/31/15-12/31/16	General liability (auto, general, police, e & o, employment practices, & stop gap)	\$250,000 self-insured retention (SIR) with aggregate limits of \$10,000,000.
National Casualty	12/31/15-12/31/16	Excess liability	\$10,000,000 in excess of \$10,000,000 with aggregate limits of \$10,000,000.
Travelers	1/1/16-1/1/17	Crime/fidelity (employee theft, forgery or alteration, on premises, in transit, money orders and counterfeit money, computer crime, fund transfer fraud and claims expense)	Deductible ranges from \$5,000 to \$25,000 with single loss limits ranging from \$50,000 to \$1,000,000.
Philadelphia	1/1/16-1/1/17	Property coverage	\$25,000 deductible with single loss limits of \$40,442,519 for buildings and \$5,132,848 in contents.

The City's industrial insurance is provided by the Association of Washington Cities and is administered by the Workers' Comp Retro Program. Coverage is purchased by means of standard rates per working hour and is computed by the total number of hours worked by employees multiplied by the basic premium rate assigned to the business risk classification. The following are benefits provided by industrial insurance: medical services, damaged clothing, travel expenses, time-loss payments, vocational rehabilitation, partial disability awards, pension awards and survivor benefits.

**NOTE 11 – LONG-TERM LIABILITIES**

The various categories of long-term debt reflected on the City's financial statements are briefly described in the following paragraphs. Ratings are issued on the bond at the time of issuance. The ratings issued on City bonds are shown on page 66.

General obligation bonds are backed by the City's full faith and credit. Proceeds are typically used for the acquisition or construction of major capital facilities or equipment. "Councilmanic Bonds" are general obligation bonds issued by City Council without voter approval. Under State law, repayment of these bonds must be financed from general City revenues because no additional property taxes can be levied to support related debt service payments. General Obligation bonds approved by the voters are typically repaid through an annual "excess" property tax levy authorized for this purpose by State statute. At year-end 2016 the City had no voter-approved bonds outstanding. All principal and interest payments on general obligation debts are recorded as expenditures by the City's Debt Service Fund.

- A) On March 4, 2013 the City issued \$12,415,000 of general obligation refunding bonds with an average interest rate of 2.67 percent to provide resources to purchase U.S. Government and State and Local Government Series security that were placed in an irrevocable trust for the purpose of generating resources to advance refund on \$12,310,000 of outstanding 2003 GO Federal Way Community Center debt on December 1, 2013. As a result the 2003 GO FWCC bonds are considered to be defeased and the liability has been removed from the governmental activities column of the statement of net position. This advance refunding was undertaken to reduce total debt service payments over the next twenty one years by \$2,322,943 and resulted in an economic gain of \$1,740,458. (Economic gain is the net present value of future savings between old and the new debt).

- B) On November 26, 2014 the City issued \$8,209,906 of general obligation Bond anticipation note with KeyBank to acquire the Target property with an interest only rate of 1.51 percent and principal due 12/01/2017. The funds were used to purchase the old Target property for downtown development. The bond will be paid off with the sale of the land or refinanced in three years. Currently the bond calls for interest only payments before the bond is paid off.
- C) The City in conjunction with several other South King County cities (Auburn, Burien, Renton, SeaTac, Tukwila,) agreed to build a facility to hold its inmates. The total bond in 2009 was \$86.325 million and the City of Federal Way's portion at that time was \$15.522 million. In 2016 the facility was able to use its excess revenue from excess space rented to non-member cities to pay the bond in 2016.
- D) On June 28, 2016 the City entered into a Contract Loan Guarantee with Housing Urban Development for development of the Federal Way Performing Arts and Events Center. This loan, referred to as Section 108 Loan is authorized up to \$3,030,000 with advances of \$2,925,000 as of 12/31/2016 with a variable rate which is LIBOR plus 20 basis points. The Section 108 Loan contains a 20 year term with provisions to convert to a fixed rate loan at future date.

SCORE and Valley Communications joint venture information can be found on pages 69 thru 72.

The following schedules detail the long-term debt activity and balances of the City for GO Bonds, SCORE and Section 108 HUD Loan, Public Works Trust Fund Loans, Compensated Absences, and Net Pension Liability. Typically we have used the governmental funds on pages 29 and 30 to liquidate the net pension liability, with the General Fund being the primary fund.

OUTSTANDING GENERAL OBLIGATION DEBT AND LONG-TERM LIABILITIES - BY TYPE DECEMBER 31, 2016									
Description	Bond Rating at Issuance	Issue Date	Maturity Date	Interest Rate	Amount Originally Issued	Beginning Outstanding Debt	Amount Issued	Amount Redeemed	Ending Outstanding Debt
<b>Governmental Activities:</b>									
<i>General Obligation Bonds:</i>									
A) 2014 KeyBank Bond Anticipation Note <sup>1</sup>	-	Nov 26, 14	Dec 01, 17	1.51	\$ 8,209,960	\$ 8,209,960	\$ -	\$ -	\$ 8,209,960
B) 2013 Refund Ltd/Community Center <sup>2</sup>	Aa3	Dec 01, 13	Dec 01, 33	2.67	12,415,000	11,350,000	-	470,000	10,880,000
Subtotal GO Bonds:	-	-	-	-	20,624,960	19,559,960	-	470,000	19,089,960
<i>Other Miscellaneous Debt-Intergovernmental:</i>									
C) 2016 Section 108 HUD Loan <sup>3</sup>		Aug 01, 16	Aug 01, 35	1.14	2,925,000	-	2,925,000	-	2,925,000
D) 2009 SCORE/Special Obligation Bond <sup>4</sup>	A1/AA	Nov 04, 09	Jan 01, 39	3.00-6.62	15,522,300	14,096,700	-	386,100	13,710,600
Subtotal miscellaneous:	-	-	-	-	18,447,300	14,096,700	2,925,000	386,100	16,635,600
Subtotal GO Bonds plus Misc.					39,072,260	33,656,660	2,925,000	856,100	35,725,560
Compensated absences	-	-	-	-	-	1,914,554	2,209,468	2,091,214	2,032,808
Net Pension Liability (NPL) for Pers 1,2, & 3	-	-	-	-	-	9,580,886	2,312,583		11,893,469
Subtotal GO bonds, misc., comp. absences, & NPL	-	-	-	-	39,072,260	45,152,100	7,447,051	2,947,314	49,651,837
<b>Business-Type Activities:</b>									
<i>Public Works Trust Fund Loan (PWTF):</i>									
PWTF - SeaTac Mall Drain Imp	-	May 31, 00	Jul 01, 19	1.00	412,500	64,080	-	16,020	48,060
PWTF - SeaTac Mall Drain Imp	-	Aug 14, 00	Jul 01, 19	1.00	2,062,500	320,401	-	80,100	240,301
Subtotal PWTF	-	-	-	-	2,475,000	384,481	-	96,120	288,361
Compensated absences	-	-	-	-	-	94,958	107,011	111,841	90,128
Net Pension Liability (NPL) for Pers 1,2, & 3	-	-	-	-	-	1,330,438	253,823		1,584,261
Subtotal PWTF, comp. absences, & NPL:	-	-	-	-	2,475,000	1,809,877	360,834	207,961	1,962,750
<b>Grand Total All Long-Term Debt:</b>	-	-	-	-	<b>\$ 41,547,260</b>	<b>\$ 46,961,977</b>	<b>\$ 7,807,885</b>	<b>\$ 3,155,275</b>	<b>\$ 51,614,587</b>

On November 26, 2014 the City issued \$8,209,960 of general obligation bond anticipation note with KeyBank with an interest only rate of 1.51 percent and principal due 12/01/2017. <sup>2</sup>The ending 2016 refunding Community Center bond premium is \$329,551 with current year amortization of \$38,009. <sup>3</sup>Contract Loan Guarantee Assistance via Housing & Urban Development with variable rate; 3 month libor plus 20 basis points. When final advance is made during 2017 for maximum authorized \$3,030,000, there is an option to convert to a fixed rate. <sup>4</sup>Currently the City has an inter-local agreement with Des Moines where they contribute 1% to the City of Federal Way SCORE Debt.

SCHEDULE OF CHANGES IN LONG-TERM LIABILITIES PERIOD ENDED DECEMBER 31, 2016				
	Beginning Outstanding Debt	Additions	Reductions	Ending Outstanding Debt
<b>Governmental Activities:</b>				
General Obligation Bonds	\$ 19,559,960	\$ -	\$ (470,000)	\$ 19,089,960
Other-intergovernmental debt	14,096,700	2,925,000	(386,100)	16,635,600
Compensated absences	1,914,554	2,209,468	(2,091,214)	2,032,808
Net Pension Liability (NPL) for Pers 1,2, & 3	9,580,886	2,312,583	-	11,893,469
<b>Total Governmental Activities</b>	<b>45,152,100</b>	<b>7,447,051</b>	<b>(2,947,314)</b>	<b>49,651,837</b>
<b>Business-Type Activities:</b>				
<i>Enterprise Funds</i>				
Public Works Trust Fund Loan	384,481	-	(96,120)	288,361
Compensated absences	94,958	107,011	(111,841)	90,128
Net Pension Liability (NPL) for Pers 1,2, & 3	1,330,438	253,823	-	1,584,261
<b>Total Business-Type Activities</b>	<b>1,809,877</b>	<b>360,834</b>	<b>(207,961)</b>	<b>1,962,750</b>
<b>Total All Funds</b>	<b>\$ 46,961,977</b>	<b>\$ 7,807,885</b>	<b>\$ (3,155,275)</b>	<b>\$ 51,614,587</b>

OUTSTANDING GENERAL OBLIGATION DEBT AND LONG-TERM LIABILITIES - BY FUND DECEMBER 31, 2016						
Description	Amount Originally Issued	Beginning Outstanding Debt	Amount Issued	Amount Redeemed	Ending Outstanding Debt	Due within one year
<b>Governmental Long-Term Debt:</b>						
<i>General Obligation Bonds:</i>						
A) 2014 KeyBank Bond Anticipation Note 1	\$ 8,209,960	\$ 8,209,960	\$ -	\$ -	\$ 8,209,960	\$ 8,209,960
B) 2013 Refund Ltd/Community Center 2	12,415,000	11,350,000	-	470,000	10,880,000	485,000
Subtotal GO Bonds:	20,624,960	19,559,960	-	470,000	19,089,960	8,694,960
<i>Other Miscellaneous Debt-Intergovernmental:</i>						
C) 2016 Section 108 HUD Loan3	2,925,000	-	2,925,000	-	2,925,000	153,000
D) 2009 SCORE/Special Obligation Bond4	15,522,300	14,096,700	-	386,100	13,710,600	403,200
Subtotal miscellaneous:	18,447,300	14,096,700	2,925,000	386,100	16,635,600	556,200
Subtotal GO Bonds plus Misc.	39,072,260	33,656,660	2,925,000	856,100	35,725,560	9,251,160
Compensated absences	-	1,914,554	2,209,468	2,091,214	2,032,808	130,308
Net Pension Liability (NPL) for Pers 1,2, & 3	-	9,580,886	2,312,583	-	11,893,469	na
Subtotal GO bonds, misc., comp. absences, & NPL:	39,072,260	45,152,100	7,447,051	2,947,314	49,651,837	9,381,468
<b>Business-Type Activities:</b>						
<i>Enterprise Funds:</i>						
Public Works Trust Fund Loan	2,475,000	384,481	-	96,120	288,361	96,120
Subtotal Bus-Type Long-Term Debt	2,475,000	384,481	-	96,120	288,361	96,120
Compensated absences	-	94,958	107,011	111,841	90,128	6,850
Net Pension Liability (NPL) for Pers 1,2, & 3	-	1,330,438	253,823	-	1,584,261	na
Subtotal PWTFL, comp. absences, & NPL:	2,475,000	1,809,877	360,834	207,961	1,962,750	102,970
<b>Grant Total All Long-Term Debt:</b>	<b>\$ 41,547,260</b>	<b>\$ 46,961,977</b>	<b>\$ 7,807,885</b>	<b>\$ 3,155,275</b>	<b>\$ 51,614,587</b>	<b>\$ 9,484,438</b>

SCHEDULE OF DEBT SERVICE REQUIREMENTS TO MATURITY AS OF DECEMBER 31, 2016							
Year	Government Activities		Business-Type Activities		Grand Total		
	General Governmental Debt		Public Work Trust Fund				
	Principal	Interest	Principal	Interest	Principal	Interest	P&I
2017	\$ 9,251,160	\$ 1,048,332	\$ 96,120	\$ 2,884	\$ 9,347,280	\$ 1,051,215	\$ 10,398,495
2018	1,068,800	895,138	96,120	1,922	1,164,920	897,060	2,061,980
2019	1,097,300	865,055	96,120	961	1,193,420	866,016	2,059,435
2020	1,126,700	834,154	-	-	1,126,700	834,154	1,960,854
2021	1,169,200	794,428	-	-	1,169,200	794,428	1,963,628
2022	1,211,300	753,863	-	-	1,211,300	753,863	1,965,163
2023-2027	6,655,800	3,184,492	-	-	6,655,800	3,184,492	9,840,292
2028-2032	7,814,500	2,054,505	-	-	7,814,500	2,054,505	9,869,005
2033-2037	5,401,100	778,534	-	-	5,401,100	778,534	6,179,634
2038-2039	929,700	39,981	-	-	929,700	39,981	969,681
<b>Total</b>	<b>\$ 35,725,560</b>	<b>\$ 11,248,481</b>	<b>\$ 288,359</b>	<b>\$ 5,767</b>	<b>\$ 36,013,919</b>	<b>\$ 11,254,248</b>	<b>\$ 47,268,167</b>

**Computation of Legal Debt Margin**

Under Washington State law (RCW 39.36.020), a City may incur general obligation debt for general city purposes in an amount not to exceed 2½ percent of the value of all taxable property within the City. State law requires all property to be assessed at 100 percent of its true and fair value. Unlimited tax general obligation debt requires an approving vote of the people, and any election to validate such general obligation debt must have a voter turnout of at least 40 percent of those who voted in the last State general election and of those voting; 60 percent must be in the affirmative. The City Council may, by ordinance, authorize the issuance of limited tax general obligation debt in an amount up to 1.5% of the valuation within the City without a vote of the people. No combination of limited or unlimited tax debt may exceed 7½ percent of the valuation. The debt service on unlimited tax debt is secured by excess property tax levies, whereas the debt service on limited tax debt is secured by property taxes collected with the City's councilmanic levy. See page 128 for a detailed calculation of the valuation.

The City's legally remaining debt capacities as of December 31, 2016 are:

<b>Computation of Limitation of Indebtedness</b>	<b>2016</b>
General government (no vote required)	\$ 108,086,319
General government (3/5 majority vote required)	94,202,243
Parks and open space (3/5 majority vote required)	235,505,607
Utilities (3/5 majority vote required)	235,505,607
<b>Total Capacity</b>	<b>\$ 673,299,776</b>

**Compensated Absences**

The City's liability for accrued vacation and compensatory time balances is recorded in the schedule below. Accrued compensated absences for proprietary fund employees are recorded as liabilities in those funds expected to incur the related future expense. Typically the General Fund has been used to liquidate compensated absences for the General Government.

<b>Governmental Activities:</b>	
Current portion	\$ 130,308
Noncurrent portion	1,902,500
<b>Business-Type Activities:</b>	
Current portion	6,850
Noncurrent portion	83,279
<b>Total Compensated absences</b>	<b>\$ 2,122,937</b>

**Estimated Arbitrage Rebate**

The Federal Tax Reform Act of 1986 requires issuers of tax-exempt debt of over \$5 million to make payments to the United States Treasury of investment interest received at yields that exceed the issuer's tax-exempt borrowing rates. Payments of arbitrage rebate amounts due under these regulations must be made to the U.S. Treasury every five years. The City's estimated rebatable arbitrage amount as of December 31, 2016 is \$-0- for its tax-exempt general obligation bond issues subject to the Tax Reform Act issued through that date. No arbitrage applies to any of City of Federal Way bonds.

**NOTE 12 – INTERFUND TRANSACTIONS**

Interfund transfers for the year ended December 31, 2016 were as follows:

<b>Interfund Transfers</b>	<b>In</b>	<b>Out</b>
<b>Governmental Funds:</b>		
General Fund	\$ 10,465,074	\$ 3,685,564
Street Fund	1,810,595	-
Utility Tax Fund	198,386	10,383,688
Debt Service	1,840,544	-
Downtown Redevelopment	127,348	-
Transportation	4,788,000	-
Nonmajor Governmental Funds	1,813,943	5,455,568
<b>Proprietary Funds:</b>		
Surface Water Management	-	965,000
Dumas Bay Centre	331,875	-
Internal Service Funds	114,055	1,000,000
<b>Total:</b>	<b>\$ 21,489,820</b>	<b>\$ 21,489,820</b>

The following describes the amounts transferred out during 2016:

**General Fund:**

- \$1,695,025 to Street Fund to subsidize street maintenance and operations.
- \$1,778,550 to Street Construction Project S 352<sup>nd</sup> Street: SR99 to SR161.
- \$127,348 to Downtown Redevelopment Fund for Target property interest payment.
- \$80,641 to Federal Way Community Center to subsidize maintenance and operations.
- \$4,000 to Dumas Bay Center to subsidize maintenance and operations.

**Utility Tax Fund:**

- \$7,684,465 from Utility Tax Fund to General Fund for operation support.
- \$420,302 from Utility Tax Fund to Federal Way Community Center for maintenance and operations.
- \$1,028,421 from Utility Tax Fund to Debt Service Fund for debt service payments.
- \$1,013,000 from Utility Tax Fund to Arterial Street Overlay Fund for street overlay maintenance.
- \$115,570 from Utility Tax Fund to Street Fund for maintenance and operations of City streets.
- \$4,055 from Utility Tax Fund to Building & Furnishings Fund for maintenance and operations.
- \$117,875 from Utility Tax Fund to Dumas Bay Center to subsidize maintenance and operations.

**Nonmajor Funds:**

- \$198,386 from Arterial Street Overlay Fund to Utility Tax Fund to return Utility Tax.
- \$1,780,609 from Traffic Safety Fund to General Fund for Police related services.
- \$210,000 from Traffic Safety Fund to Street Construction Project for school zone enhancement.
- \$812,123 from Real Estate Excise Tax (REET) Fund to Debt Service Fund for debt payments.
- \$150,000 from REET Fund to Parks CIP for major parks facilities repair.
- \$150,000 from REET Fund to Parks CIP for playgrounds equipment.
- \$1,613,000 from REET Fund to Street Construction Project SR99 HOV Lanes Phase V.
- \$221,450 from REET Fund to Street Construction Project S 352<sup>nd</sup> Street SR99 to SR161.
- \$210,000 from REET Fund to Dumas Bay Center Fund for reserve.
- \$110,000 from REET Fund to Buildings and Furnishings Fund for reserve.

**Surface Water Management Fund:**

- \$965,000 from Surface Water CIP Fund to Street Construction Project SR99 HOV Lanes Phase V.

**Internal Service:**

- \$1,000,000 from Unemployment Insurance Fund to General Fund for operations.

Interfund loans for the year ended December 31, 2016 were as follows:

<b>Interfund Loans</b>	<b>Receivable</b>	<b>Payable</b>
General Fund	\$ 50,714	\$ -
Special Revenue Funds:		
Community Development Block Grant	-	50,714
<b>Total Interfund Loans</b>	<b>\$ 50,714</b>	<b>\$ 50,714</b>

**NOTE 13 – CONTRACTUAL OBLIGATIONS, CONTINGENCIES AND LITIGATION**

As of December 31, 2016 there were a small number of claims for damages and lawsuits pending against the City. In the opinion of the City Attorney, however, neither the potential liability for any single claim or lawsuit, nor the aggregate potential liability arising from all actions currently pending would materially affect the financial condition of the City. Due to both their uncertainty and immateriality, no liabilities or estimated liabilities have been included in the City's financial statements.

**NOTE 14 – JOINT VENTURES**

**Valley Communication Center**

The "Valley Communications Center" was established August 20, 1976, when an Interlocal Agreement was entered into by the four original participating municipal corporations, including the cities of Renton, Kent, Auburn, and Tukwila. Federal Way was formally admitted as an addition in 2000. The agreement is sanctioned by the provisions and terms of the Interlocal Cooperation Act pursuant to RCW 39.34. The initial duration of the agreement was five years, and thereafter was automatically extended for a consecutive five year-period.



The purpose of the joint operation, hereafter referred to as Valley Com, is to provide improved consolidated emergency communications (dispatch) services for police, fire, and medical aid, to the five participating cities and to several subscribing agencies, which include King County Fire Districts 2, 20, 26, 40, 43, 44, and 47; City of Pacific Police and Fire Departments, City of Algona Police Department, City of Des Moines Police Department, City of Black Diamond Police and Fire Department; SeaTac Fire Department; North Highline Fire Department; King County EMS Units; and Vashon Island Fire Department. Separate agreements between Valley Com and the subscribing agencies have been executed, which set forth conditions of services and rates charged.

The allocation of prorated financial participation among the five member cities is the percentage of dispatched calls attributed to each jurisdiction compared to the total estimated dispatched calls, for the current twelve month period ending December 31. The percentages are applied to the current approved budget, less revenue from all other sources. Distribution of the current year net income is based on the same percentages. The 2016 cost distributions for the five member cities are as follows:

City	Dispatchable Calls	Percent of Total
Kent	114,769	26.81%
Renton	86,799	20.28%
Auburn	96,406	22.52%
Tukwila	37,375	8.73%
Federal Way	92,658	21.65%
<b>Total</b>	<b>428,006</b>	<b>100.00%</b>

Valley Com is governed by an Administration Board, composed of the Mayors or designated representatives from the five participating cities of Renton, Kent, Auburn, Tukwila, and Federal Way. The Administration Board is authorized to establish bylaws that govern procedures of the Board and Valley Com's general operations for the following functions: 1) Budget review and recommendations to the legislative bodies of the member cities, and budget adoption after each legislative body has approved the required financial participation for the ensuing year; 2) Approve appointment and/or discharge of the Director; 3) Approve personnel policy and make final decisions on all major policy changes; and 4) Review and approves all contracts.

In addition, an Operating Board was established and consists of two members of each participating City's Public Safety Departments, including the heads of such departments or their designees. The Operating Board performs the following functions: 1) Oversees the general operation of Valley Com, and advises and makes recommendations to the Administration Board; 2) Make recommendations on Director selection; 3) Presents proposed policies and budgets to the Administration Board; and 4) Reviews disbursements of funds by the Director.

The Director presents a proposed budget to the Operating Board on or before August 15 of each year. Said budget is then presented to the Administrative Board by September 1 of each year. The Administration Board can make changes to the proposed Valley Com budget as it finds necessary, but final approval falls to the legislative body of each member city, in accordance with the provisions of the interlocal agreement.

In May 1993 Valley Com entered into an agreement with King County to provide joint project management for the acquisition and installation of 800-MHz emergency radio communications system approved by the voters of King County in conjunction with a \$57 million levy. In August 1993 Valley Com also entered into an Interlocal Cooperation Agreement with the sub-regions of King County, Seattle, and Eastside Public Safety Communications, which governs the development and installation of the new 800-MHz emergency radio system. Valley Com now provides emergency communication dispatch services to a population of approximately 570,000.

Valley Com operates as an enterprise fund and is totally self-supporting through the implementation of user fees, and the primary source of revenue is provided by charges for calls for service. The 800-MHz emergency radio communications system operated by the agreement with King County is operated as a separate enterprise fund, and the Member Cities have no equity interest in the contributed capital from this system.

The share of equity belonging to the five participating cities is shown below. Liabilities are the responsibility of the five participating cities in direct proportion to their equity position.

	Balances in 2016					
	Kent	Renton	Auburn	Tukwila	Federal Way	Total
Equity @ January 1, 2016	\$ 5,538,893	\$ 3,944,879	\$ 3,853,230	\$ 2,139,261	\$ 2,858,305	\$ 18,334,568
Current year increase	775,712	586,665	651,598	252,610	626,262	2,892,848
Equity @ December 31, 2016	\$ 6,314,605	\$ 4,531,544	\$ 4,504,828	\$ 2,391,871	\$ 3,484,567	\$ 21,227,416
Percent of equity	29.75%	21.35%	21.22%	11.27%	16.42%	100.00%
Prior year's percent of equity	30.21%	21.52%	21.02%	11.67%	15.59%	100.00%

A complete set of financial statements is available from:  
Valley Communications Center, 27519 108<sup>th</sup> Avenue SE, Kent, WA 98030.

### **South Correction Entity**

The South Correctional Entity (SCORE) consolidated correctional facility was established February 25, 2009, when an Interlocal Agreement (the "Original Interlocal Agreement") was entered into by seven participating municipal governments, the "Member Cities" of Auburn, Burien, Des Moines, Federal Way, Renton, SeaTac and Tukwila, under the authority of the "Interlocal Cooperation Act" (RCW 39.34). This "Original Interlocal Agreement" was amended and restated October 1, 2009 and named the City of Des Moines as the "Host City" and the remaining Member Cities as "Owner Cities". This interlocal agreement is known as the "Formation Interlocal Agreement". Pursuant to a separate "Host City Agreement" dated October 1, 2009, the Host City will not enjoy the same equity position as the Owner Cities until all debts issued are paid and the Host City fulfills all of its obligations as outlined in the Host City Agreement. Pursuant to SCORE financial policies, all unexpected funds or reserve funds shall be distributed based on the percentage of the Member City's average daily population at the SCORE Facility for the last three (3) years regardless of its Owner City or Host City status.

SCORE, a governmental administrative agency pursuant to RCW 39.34.030(3), has the power to acquire, construct, own, operate, maintain, equip, and improve a correctional facility known as the "SCORE Facility" and to provide correctional services and functions incidental thereto, for the purpose of detaining arrestees and sentenced offenders in the furtherance of public safety and emergencies within the jurisdiction of the Member Cities. The SCORE Facility may serve the Member Cities and Subscribing Agencies which are in need of correctional facilities. Any agreement with a Subscribing Agency shall be in writing and approved by SCORE as provided within the SCORE Formation Interlocal Agreement.

Financing for the acquisition, construction, equipping, and improvement of the SCORE Facility was provided by bonds issued by the South Correctional Entity Facility Public Development Authority (the "SCORE PDA"), a public development authority chartered by the City of Renton pursuant to RCW 35.21.730 through 35.21.755. The SCORE PDA issued \$86 million in special obligation bonds in 2009 (the "Bonds") to construct, develop, acquire and equip the SCORE Facility. Pursuant to the Formation Interlocal Agreement and the ordinances of each city, each Owner City (which includes the Cities of Auburn, Burien, Federal Way, Renton, SeaTac, and Tukwila) is obligated to budget for and pay its share, and only its share, of the principal of and interest on the Bonds as the same become due and payable. Each Owner City's obligation to pay its portion is an irrevocable, unconditional full faith and credit obligation of such Owner City, payable from property taxes levied within the constitutional and statutory authority provided without a vote of the electors of the Owner City on all of the taxable property within the Owner City and other sources of revenues available therefor. The following is a summary of the debt service requirements for the Bonds:

Summary of Debt Service Requirements										
Debt Service Schedule					Debt Service Allocation to Owner Cities					
Year	Principal	Interest	35% BABs		Auburn 31%	Burien 4%	Federal Way 18%	Renton 36%	SeaTac 3%	Tukwila 8%
			Subsidy	Total						
2017	\$ 2,145,000	\$ 4,820,241	\$ (1,510,874)	\$ 5,454,367	\$ 1,690,854	\$ 218,175	\$ 981,786	\$ 1,963,572	\$ 163,631	\$ 436,349
2018	2,240,000	4,715,979	(1,510,063)	5,445,916	1,688,234	217,837	980,265	1,960,530	163,377	435,673
2019	2,310,000	4,602,229	(1,473,568)	5,438,661	1,685,985	217,546	978,959	1,957,918	163,160	435,093
2020	2,385,000	4,484,854	(1,435,933)	5,433,921	1,684,516	217,357	978,106	1,956,212	163,018	434,714
2021	2,465,000	4,363,604	(1,397,075)	5,431,529	1,683,774	217,261	977,675	1,955,350	162,946	434,522
2022-2026	13,945,000	19,586,127	(6,994,733)	26,536,394	8,226,282	1,061,456	4,776,551	9,553,102	796,092	2,122,912
2027-2031	17,010,000	14,723,464	(5,346,730)	26,386,734	8,179,888	1,055,469	4,749,612	9,499,224	791,602	2,110,939
2032-2036	20,955,000	8,498,417	(3,217,063)	26,236,354	8,133,270	1,049,454	4,722,544	9,445,087	787,091	2,098,908
2037-2039	14,860,000	1,502,494	(697,922)	15,664,572	4,856,017	626,583	2,819,623	5,639,246	469,937	1,253,166
<b>Total</b>	<b>\$ 78,315,000</b>	<b>\$ 67,297,409</b>	<b>\$ (23,583,961)</b>	<b>\$ 122,028,448</b>	<b>\$ 37,828,820</b>	<b>\$ 4,881,138</b>	<b>\$ 21,965,121</b>	<b>\$ 43,930,241</b>	<b>\$ 3,660,854</b>	<b>\$ 9,762,276</b>

\*Of the \$21,965,121 allocation to Federal Way, \$14,096,700 is for the principal portion and the remainder is for interest.

The City of Federal Way reports its share of equity interest in the Governmental Activities column within the Government-wide financial statements under non-current assets. The following is condensed (unaudited) financial information as of December 31, 2016 related to SCORE:



South Correction Entity (SCORE) 2016 Owner Cities Equity Allocation				
Member City	Percent of Equity	2015 Equity Balance	2016	
			Apportionment	Equity Balance
Auburn	31.00%	\$ 3,331,777	\$ (216,443)	\$ 3,115,334
Burien	3.10%	376,841	(52,239)	324,602
Des Moines	1.80%	197,267	(30,684)	166,583
Federal Way	23.30%	2,620,575	(328,310)	2,292,265
Renton	29.20%	3,222,670	(281,167)	2,941,503
SeaTac	4.50%	498,467	(64,438)	434,029
Tukwila	7.10%	788,541	(85,218)	703,323
<b>Total</b>	<b>100.00%</b>	<b>\$ 11,036,138</b>	<b>\$ (1,058,499)</b>	<b>\$ 9,977,639</b>

Completed financial statements for SCORE and SCORE PDA can be obtained at SCORE, Attn: Finance Manager, 20817 17<sup>th</sup> Avenue South, Des Moines, WA 98198.

#### Joint Venture Reconciliation to Government Wide Financial Statements

	Balance 1/1/2016	Additions	Reductions	Balance 12/31/2016
Valley Communications Public Development Authority	\$ -	\$ -	\$ -	\$ -
SCORE Public Development Authority	14,096,700	-	(386,100)	\$ 13,710,600
<b>Total Due to Other Governmental Units</b>	<b>14,096,700</b>	<b>-</b>	<b>(386,100)</b>	<b>13,710,600</b>
Valley Communications Center	2,858,305	626,262	-	3,484,567
South Correctional Entity (SCORE)	2,620,575	-	(328,310)	2,292,265
<b>Total Joint Venture Capital Assets</b>	<b>5,478,880</b>	<b>626,262</b>	<b>(328,310)</b>	<b>5,776,832</b>
<b>Total Investment in Joint Ventures</b>	<b>\$ 19,575,580</b>	<b>\$ 626,262</b>	<b>\$ (714,410)</b>	<b>\$ 19,487,432</b>

#### NOTE 15 – PRIOR PERIOD ADJUSTMENTS

Business-type capital asset activity prior period adjustment of \$266K is for **Construction in progress** that was incorrectly classified and should have been a repairs and maintenance expense.

Business-Type Activities	Beg. Bal 1/1/2016	Prior Period Adjustment	Adj. Beg. Balance	Additions	Deletions	Ending Bal. 12/31/2016
Capital assets, not being depreciated:						
Land	\$11,013,528	\$ -	\$11,013,528	\$218,965	\$ -	\$11,232,493
Construction in progress	3,111,186	(266,237)	2,844,949	615,121	(3,438,348)	21,722
<b>Total capital assets, not being depreciated:</b>	<b>14,124,714</b>	<b>(266,237)</b>	<b>13,858,477</b>	<b>834,086</b>	<b>(3,438,348)</b>	<b>11,254,215</b>
Capital assets, being depreciated						
Buildings	3,600,864	-	3,600,864	904,484	-	4,505,348
Improvements other than buildings	2,831,681	-	2,831,681	1,081,692	-	3,913,373
Infrastructure	56,847,003	-	56,847,003	1,548,600	-	58,395,603
Machinery and equipment	122,200	-	122,200	52,946	-	175,146
<b>Total capital assets, being depreciated:</b>	<b>63,401,747</b>	<b>-</b>	<b>63,401,747</b>	<b>3,587,722</b>	<b>-</b>	<b>66,989,469</b>
Less accumulated depreciation for:						
Buildings	(3,281,550)	-	(3,281,550)	(150,742)	-	(3,432,292)
Improvements other than buildings	(213,247)	-	(213,247)	(28,317)	-	(241,564)
Infrastructure	(104,165)	-	(104,165)	(4,340)	-	(108,505)
Machinery and equipment	(14,544,843)	-	(14,544,843)	(568,470)	-	(15,113,313)
Total accumulated depreciation:	(18,143,805)	-	(18,143,805)	(751,869)	-	(18,895,674)
<b>Total assets being depreciated, net</b>	<b>45,257,942</b>	<b>-</b>	<b>45,257,942</b>	<b>2,835,853</b>	<b>-</b>	<b>48,093,795</b>
<b>Business Type activities capital assets, net</b>	<b>\$ 59,382,656</b>	<b>\$ (266,237)</b>	<b>\$ 59,116,419</b>	<b>\$ 3,669,939</b>	<b>\$ (3,438,348)</b>	<b>\$ 59,348,010</b>

**NOTE 16 – LEASES****Operating Leases**

Starting February 1, 2014, the City of Federal Way started leasing the office buildings for the downtown Police substation. Total Cost for the leases was \$41,900 for the year ended December 31, 2016. The future minimum lease payment for the downtown Police substation lease is as follows:

Year Ending December 31, 2016	Amount
2017	\$ 3,500
<b>Total:</b>	<b>\$ 3,500</b>

**NOTE 17 – SELF-INSURANCE**

The City's unemployment insurance, where it has elected to become fully self-insured. Related premiums received by the Unemployment Insurance Fund is used to reimburse the State Employment Security Department for unemployment benefits paid to eligible individuals, and to establish reserves for the payment of estimated future unemployment claims liability. The City is self-insured for unemployment compensation. The weekly payments to an employee range from \$162 - \$681 depending upon the wages earned. At December 31<sup>st</sup>, 2016 the City had \$1,377,809 in reserve.

Unemployment compensation benefits	2015	2016
Unemployment reserve, Jan. 1st	\$ 1,912,291	\$ 2,131,298
Unemployment compensation benefits	257,366	271,127
Unemployment compensation interest	2,844	5,448
Claim payments during the year	(41,202)	(30,064)
Operating Transfer to General Fund	-	(1,000,000)
<b>Unemployment reserve, Dec. 31st</b>	<b>\$ 2,131,298</b>	<b>\$ 1,377,809</b>

The City's also elected to self-insure for medical. Related premiums are received by the Health Insurance Fund and are used to reimburse weekly claims to the Group Health Corporation for medical benefits paid the eligible individuals, and establish reserves for the payment of estimated future medical benefits claims liability. At December 31<sup>st</sup>, 2016 the City had \$2,020,466 in reserve.

Health Insurance benefits	2015	2016
Health Insurance reserve, Jan. 1st	\$ 1,031,752	\$ 1,741,487
Health Insurance benefits	4,034,322	4,069,020
Health Insurance Employee Contributions	215,210	217,341
Health Insurance COBRA Contributions	5,757	5,757
Health Insurance interest	2,022	7,698
Health Insurance Recovery-Stop Loss	227,404	1,072,162
Prescription Claim payments during the year	(572,387)	(549,408)
Medical Claim payments during the year	(2,459,508)	(3,775,159)
Insurance-Stop Loss	(366,564)	(384,370)
Other services and charges	(376,522)	(384,061)
<b>Health Insurance reserve, Dec. 31st</b>	<b>\$ 1,741,487</b>	<b>\$ 2,020,466</b>

**NOTE 18 ACCOUNTING CHANGES AND REPORTING CHANGES**

The City has adopted reporting requirements of GASB Statement 79, *Certain External Investment Pools and Pool Participants* for the year 2016. See note 5 for implementation of GASB Statement 79.

**NOTE 19 – SUBSEQUENT EVENT**

There were a couple of major real estate transactions that happened after the end of the year. The Commons (Commons Mall) was sold in March of 2017 for \$45.91 million, and Pavillion apartment complex was sold for \$93.1 million in March.

City of Federal Way			
Schedule of Proportionate Share of the Net Pension Liability			
PERS 1			
As of June 30, 2016			
Last 10 Fiscal Years*			
		2015	2016
Employer's proportion of the net pension liability (asset)	%	0.110831%	0.114008%
Employer's proportionate share of the net pension liability	\$	5,797,492	6,122,767
<b>TOTAL</b>	<b>\$</b>	<b>5,797,492</b>	<b>6,122,767</b>
Employer's covered employee payroll	\$	12,744,440	13,650,352
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	%	45.49%	44.85%
Plan fiduciary net position as a percentage of the total pension liability	%	59.10%	57.03%
<b>Notes to Schedule:</b>			
* Employer's covered employee payroll increased by \$905K and net pension liability increased by \$325K			

City of Federal Way			
Schedule of Proportionate Share of the Net Pension Liability			
PERS 2 - 3			
As of June 30, 2016			
Last 10 Fiscal Years*			
		2015	2016
Employer's proportion of the net pension liability (asset)	%	0.143122%	0.146079%
Employer's proportionate share of the net pension liability	\$	5,113,831	7,354,962
<b>TOTAL</b>	<b>\$</b>	<b>5,113,831</b>	<b>7,354,962</b>
Employer's covered employee payroll	\$	12,744,440	13,650,352
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	%	40.13%	53.88%
Plan fiduciary net position as a percentage of the total pension liability	%	89.20%	85.82%
<b>Notes to Schedule:</b>			
* Employer's covered employee payroll increased by \$905K and net pension liability increased by \$2.2M			

City of Federal Way			
Schedule of Proportionate Share of the Net Pension Liability (Asset)			
LEOFF 2			
As of June 30, 2016			
Last 10 Fiscal Years*			
		2015	2016
Employer's proportion of the net pension liability (asset)	%	0.427847%	0.415772%
Employer's proportionate share of the net pension liability (asset)	\$	(4,397,411)	(2,418,255)
LEOFF 2 - State's proportionate share of the net pension liability (asset) associated with the employer	\$	(2,907,569)	(1,576,526)
<b>TOTAL</b>	<b>\$</b>	<b>(7,304,980)</b>	<b>(3,994,781)</b>
Employer's covered employee payroll	\$	12,477,707	12,625,740
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	%	-35.24%	-19.15%
Plan fiduciary net position as a percentage of the total pension liability	%	111.67%	106.04%
<b>Notes to Schedule:</b>			
* Employer's covered employee payroll increased by \$148K and net pension asset decreased by \$1.3M			

City of Federal Way		
Schedule of Employer Contributions		
PERS 1		
As of December 31, 2016		
Last 10 Fiscal Years*		
	2015	2016
Statutorily or contractually required contributions	\$ 584,359	663,133
Contributions in relation to the statutorily or contractually required contributions	\$ (584,359)	(663,133)
<b>Contribution deficiency (excess)</b>	<b>\$ -</b>	<b>-</b>
Covered Employer Payroll	\$ 13,309,318	13,887,684
Contributions as a percentage of covered employee payroll	% 4.39%	4.77%
<b>Notes to Schedule:</b>		
* Employer's covered employee payroll increased by \$578K		

City of Federal Way		
Schedule of Employer Contributions		
PERS 2-3		
As of December 31, 2016		
Last 10 Fiscal Years*		
	2015	2016
Statutorily or contractually required contributions	\$ 750,485	866,073
Contributions in relation to the statutorily or contractually required contributions	\$ (750,485)	(866,073)
<b>Contribution deficiency (excess)</b>	<b>\$ -</b>	<b>-</b>
Covered Employer Payroll	\$ 13,309,318	13,887,684
Contributions as a percentage of covered employee payroll	% 5.64%	6.24%
<b>Notes to Schedule:</b>		
* Employer's covered employee payroll increased by \$578K		

City of Federal Way		
Schedule of Employer Contributions		
LEOFF 2		
As of December 31, 2016		
Last 10 Fiscal Years*		
	2015	2016
Statutorily or contractually required contributions	\$ 625,331	669,609
Contributions in relation to the statutorily or contractually required contributions	\$ (625,331)	(669,609)
<b>Contribution deficiency (excess)</b>	<b>\$ -</b>	<b>-</b>
Covered Employer Payroll	\$ 12,382,722	13,274,725
Contributions as a percentage of covered employee payroll	% 5.05%	5.04%
<b>Notes to Schedule:</b>		
* Employer's covered employee payroll increased by \$892K		

**CITY OF FEDERAL WAY, WASHINGTON**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**For Year Ended December 31, 2016**

<b>Federal Agency</b> <i>Pass-Thru Agency (if applicable)</i>		<b>CFDA</b> <b>#</b>	<b>Other</b> <b>I.D. #</b>	<b>From</b> <b>Pass-Through</b> <b>Awards</b>	<b>From</b> <b>Direct</b> <b>Awards</b>	<b>Total</b> <b>Expenditures</b>	<b>Passed</b> <b>through to</b> <b>Subrecipients</b>
<b>Federal Program Name</b>	<b>BARS Account</b>						
<b>US Department of Housing and Urban Development Office of Community Planning and Development</b>							
Community Development Block Grants/Entitlement Grants	119-7300-951-331-14-218	14.218	951 B-16-MC-53-0015	-	73,623	73,623	-
Community Development Block Grants/Entitlement Grants	119-7300-955-331-14-218	14.218	955 B-16-MC-53-0015	-	12,460	12,460	12,460
Community Development Block Grants/Entitlement Grants	119-7300-956-331-14-218	14.218	956 B-16-MC-53-0015	-	5,192	5,192	5,192
Community Development Block Grants/Entitlement Grants	119-7300-961-331-14-218	14.218	961 B-16-MC-53-0015	-	63,731	63,731	-
Community Development Block Grants/Entitlement Grants	119-7300-963-331-14-218	14.218	963 B-16-MC-53-0015	-	60,255	60,255	60,255
Community Development Block Grants/Entitlement Grants	119-7300-966-331-14-218	14.218	966 B-16-MC-53-0015	-	36,312	36,312	-
Community Development Block Grants/Entitlement Grants	119-7300-967-331-14-218	14.218	967 B-16-MC-53-0015	-	24,840	24,840	24,840
Community Development Block Grants/Entitlement Grants	119-7300-987-331-14-218	14.218	987 B-16-MC-53-0015	-	10,383	10,383	10,383
Community Development Block Grants/Entitlement Grants	119-7300-900-331-14-218	14.218	900 B-16-MC-53-0015	-	5,345	5,345	-
Community Development Block Grants/Entitlement Grants	119-7300-993-331-14-218	14.218	993 B-16-MC-53-0015	-	7,200	7,200	7,200
Community Development Block Grants/Entitlement Grants	119-7300-994-331-14-218	14.218	994 B-16-MC-53-0015	-	87,000	87,000	87,000
Community Development Block Grants/Entitlement Grants	119-7300-996-331-14-218	14.218	996 B-16-MC-53-0015	-	93,873	93,873	-
Community Development Block Grants/Entitlement Grants	119-7300-997-331-14-218	14.218	997 B-16-MC-53-0015	-	12,644	12,644	12,644
<b>SUBTOTAL CFDA 14.218 Entitlement Grants Cluster</b>	<b>REFER TO NOTES 1-3</b>			<b>-</b>	<b>492,858</b>	<b>492,858</b>	<b>219,974</b>
<b>US Department of Housing and Urban Development Office of Community Planning and Development</b>							
Community Development Block Grants Section 108 Loan Guarantees	308-5800-110-331-14-248	14.248	B-13-MC-53-0015	-	2,925,000	2,925,000	-
<b>SUBTOTAL CFDA 14.248</b>	<b>REFER TO NOTES 1-4</b>				<b>2,925,000</b>	<b>2,925,000</b>	
<b>US Department of Justice Bureau of Justice Assistance</b>							
State Criminal Alien Assistance Program	001-0000-090-331-16-606	16.606	SCAAP	-	2,728	2,728	-
<b>SUBTOTAL CFDA 16.606</b>	<b>REFER TO NOTES 1-3</b>			<b>-</b>	<b>2,728</b>	<b>2,728</b>	<b>-</b>
<b>US Department of Justice Bureau of Justice Assistance</b>							
Bulletproof Vest Partnership Program	001-0000-090-331-16-607	16.607	BPV	-	13,081	13,081	-
<b>SUBTOTAL CFDA 16.607</b>	<b>REFER TO NOTES 1-3</b>			<b>-</b>	<b>13,081</b>	<b>13,081</b>	<b>-</b>
<b>US Department of Justice Bureau of Justice Assistance</b>							
<i>Pass-thru City of Seattle</i>							
Edward Byrne Memorial Justice Assistance Grant Program	001-0000-090-333-16-738	16.738	2013-DJ-BX-0715	12,349	-	12,349	-
<b>SUBTOTAL CFDA 16.738</b>	<b>REFER TO NOTES 1-3</b>			<b>12,349</b>	<b>-</b>	<b>12,349</b>	<b>-</b>
<b>US Department of Justice Office of Community Oriented Policing Services</b>							
Public Safety Partnership and Community Policing Grants	001-0000-090-331-16-710	16.710	#2014UMWX0110	-	233,059	233,059	-
<b>SUBTOTAL CFDA 16.710</b>	<b>REFER TO NOTES 1-3</b>			<b>-</b>	<b>233,059</b>	<b>233,059</b>	<b>-</b>
<b>US Department of Transportation National Highway Traffic Safety Administration</b>							
<i>Pass-thru Washington Traffic Safety Commission</i>							
State and Community Highway Safety	001-0000-090-333-20-600	20.600	DHGN	29,129	-	29,129	-
<b>SUBTOTAL CFDA 20.600 Highway Safety Cluster</b>	<b>REFER TO NOTES 1-3</b>			<b>29,129</b>	<b>-</b>	<b>29,129</b>	<b>-</b>
<b>US Department of Transportation Federal Highway Administration</b>							
<i>Pass-thru Washington State DOT</i>							
Highway Planning and Construction	306-4400-165-333-20-050	20.205	STPUL-0099(126)	2,279,251	-	2,279,251	-
Highway Planning and Construction	306-4400-193-333-20-050	20.205	CM-1001(004)	286,407	-	286,407	-
Highway Planning and Construction	306-4400-194-333-20-050	20.205	SRTS-0509(031)	1,095,993	-	1,095,993	-
Highway Planning and Construction	306-4400-196-333-20-050	20.205	STPUL-1150(002)	47,123	-	47,123	-
Highway Planning and Construction	306-4400-197-333-20-050	20.205	STPUL-1022(003)	74,603	-	74,603	-
Highway Planning and Construction	306-4400-199-333-20-050	20.205	HSIP-0005(409)	619,508	-	619,508	-
Highway Planning and Construction	306-4400-200-333-20-050	20.205	HLP-0443(008)	74,847	-	74,847	-
<b>SUBTOTAL CFDA 20.205 Highway Planning and Construction Cluster</b>	<b>REFER TO NOTES 1-3</b>			<b>4,477,732</b>	<b>-</b>	<b>4,477,732</b>	<b>-</b>
<b>US Department of Homeland Security</b>							
<i>Pass-thru Military Department</i>							
Emergency Management Performance Grants	101-0000-000-333-97-042	97.042	n/a	39,684	-	39,684	-
<b>SUBTOTAL CFDA 97.042</b>	<b>REFER TO NOTES 1-3</b>			<b>39,684</b>	<b>-</b>	<b>39,684</b>	<b>-</b>
<b>TOTAL FEDERAL ASSISTANCE:</b>				<b>4,558,894</b>	<b>3,666,726</b>	<b>8,225,620</b>	<b>219,974</b>

**Note 1.-Basis of Accounting**

The Schedule of Financial Assistance is prepared on the same basis of accounting as the City of Federal Way's financial statements. The City uses the modified accrual basis of accounting, which is the basis adapted to governmental fund-type measurement focus. All grants reported on this schedule have been accounted for in governmental fund types. Grant revenues are determined to be earned and available at the time related expenditures are incurred. For this reason, grant revenues to be received as reimbursement for expenditures incurred in the current year are also recognized as revenue in that year.

**Note 2.- Program Costs**

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

**Note 3.- Indirect Cost Rate**

The City of Federal Way did not use the new 10% de minimis indirect cost rate as covered in 200.414 Indirect (F&A) costs, and is currently only charging direct costs to grants received.

**Note 4.- Federal Loans**

The City of Federal Way was approved by the US Department of Housing and Urban Development Office of Community Planning and Development to receive a loan totaling \$2,925,000 to finance the Performing Arts & Event Center economic development project.

## CORRECTIVE ACTION PLAN FOR FINDINGS REPORTED UNDER UNIFORM GUIDANCE

**City of Federal Way  
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 Federal Way.

<b>Finding ref number:</b> 2016-001	<b>Finding caption:</b> The City did not have adequate internal controls to ensure compliance with federal procurement and suspension and debarment requirements.
<b>Name, address, and telephone of auditee contact person:</b> Ade Ariwoola, Finance Director, City of Federal Way 33325 8th Avenue South Federal Way, WA 98003 (253) 835-2520 <a href="mailto:Ade.Ariwoola@cityoffederalway.com">Ade.Ariwoola@cityoffederalway.com</a>	
<b>Corrective action the auditee plans to take in response to the finding:</b> <i>The City will include as part of its standard contract language a clause where the contractor will certify that it is not suspended or debarred.</i>  <i>Also, where Federal funding is required we will follow the most restrictive of the federal and the state guidelines</i>	
<b>Anticipated date to complete the corrective action:</b> This will go into effect immediately.	



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