



Office of the Washington State Auditor
Pat McCarthy

**Financial Statements and Federal Single Audit
Report**
City of Everett

For the period January 1, 2017 through December 31, 2017

Published September 17, 2018

Report No. 1022176





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

September 17, 2018

Mayor and City Council
City of Everett
Everett, Washington

Report on Financial Statements and Federal Single Audit

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

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

Sincerely,

A handwritten signature in black ink that reads "Pat McCarthy". The signature is fluid and cursive.

Pat McCarthy
State Auditor
Olympia, WA

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

City of Everett January 1, 2017 through December 31, 2017

SECTION I – SUMMARY OF AUDITOR’S RESULTS

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

Financial Statements

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

Internal Control over Financial Reporting:

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

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

Federal Awards

Internal Control over Major Programs:

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

- *Material Weaknesses:* We identified no deficiencies that we consider to be material weaknesses.

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

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

Identification of Major Federal Programs:

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

<u>CFDA No.</u>	<u>Program or Cluster Title</u>
14.218	CDBG – Entitlement Grants Cluster – Community Development Block Grants/Entitlement Grants
20.507	Federal Transit Cluster – Federal Transit Formula Grants
20.526	Federal Transit Cluster – Bus and Bus Facilities Formula Program

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

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

SECTION II – FINANCIAL STATEMENT FINDINGS

See finding 2017-001.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

City of Everett

January 1, 2017 through December 31, 2017

2017-001 The Everett Public Facilities District, a component unit of the City of Everett, had internal controls over financial statement preparation that were not adequate to ensure accurate reporting.

Background

The Everett City Council appoints a five-member Board of Directors to govern the Everett Public Facilities District. The Everett Public Facilities District does not have any official government employees instead, the Board entered into an agreement with an Event management company to oversee daily operations.

It is the Everett Public Facilities District's responsibility to design, implement, and maintain internal controls to ensure their financial statements are fairly presented and provide reasonable assurance regarding the reliability of those statements.

The management company's staff are responsible for maintaining accurate accounting records of all its activities on behalf of the Everett Public Facilities District. At fiscal year-end, the management company provides its accounting records to an independent Certified Public Accounting (CPA) firm. The CPA firm prepares the Everett Public Facilities District's annual financial statements based on the documentation provided by the management company.

Description of Condition

In 2017, the management company changed its account coding structure, which affected the presentation of Everett Public Facilities District financial activities in the trial balance. As a result, while preparing the fiscal year 2017 financial statements the CPA noticed a large, unanticipated decrease in the Everett Public Facilities District's event revenues and event expenses compared to the prior year. The CPA worked with the management company staff to research and identify the cause. Ultimately, they discovered the building charges account was inadvertently applied twice to both event revenues and event expenses, causing them to be overstated.

At the beginning of the audit, the management company staff informed us of the overstatement and we concur with their analysis. Based on documentation provided by the Everett Public Facilities District and CPA, this error began in fiscal year 2006.

As a result, our audit identified a material weakness in internal controls that impacted the Everett Public Facilities District's ability to accurately report event revenues and event expenses.

Cause of Condition

The Everett Public Facilities District provided general ledger data to the CPA, but did not adequately communicate that there were amounts that should not be included in the financial statements. In addition, those reviewing the financial statements on behalf of the Everett Public Facilities District lacked adequate training to identify material errors.

Effect of Condition

The Everett Public Facilities District's financial statements equally overstated event revenues and event expenses between 2006 and 2016. The amount of the misstatement for both revenues and expenses is detailed in the chart below:

Year	Amount Event Revenues and Event Expenses Were Overstated
2016	\$1,582,639
2015	\$1,732,862
2014	\$1,549,477
2013	\$1,562,264
2012	\$1,640,522
2011	\$1,609,494
2010	\$1,285,005
2009	\$ 917,728
2008	\$1,171,851
2007	\$1,460,828
2006	\$1,215,047

Because revenues and expenses were equally overstated, the Operating Income/ (Loss), Net Cash Provided by Operating Activities, and Net Position were not impacted by the misstatement.

Recommendation

We recommend the Everett Public Facilities District strengthen internal controls over its financial reporting, which should include:

- Providing clear and accurate financial data to the CPA during financial statement preparation.

- Performing a detailed review of the prepared financial statements by a person knowledgeable of accounting and reporting requirements to ensure the statements are accurate and supported by the Everett Public Facilities District's records.

Everett Public Facilities District's Response

The Everett Public Facilities District concurs with the finding. As noted the Everett Public Facilities District identified the misstatement in preparing the 2017 financials, self-reported the error, restated prior year statements and made proper disclosures to the State Auditor's Office and in the financial statements. The reporting of financial information for financial statement preparation has already been reviewed and determined not to include similar duplications of revenue and expenses within the general ledger. The Everett Public Facilities District will continue to review its annual financial statements presented to the State Auditor's Office for their annual audit. As stated, the reporting errors did not impact reported operating income, cash flows or net position.

Auditor's Remarks

We appreciate the steps the Everett Public Facilities District is taking to resolve this issue. We will review the status of this finding during our next regularly scheduled audit.

Applicable Laws and Regulations

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

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

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

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



SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

City of Everett January 1, 2017 through December 31, 2017

This schedule presents the status of federal findings reported in prior audit periods.

Audit Period: January 1, 2016 through December 31, 2016	Report Ref. No.: 1019909	Finding Ref. No.: 2016-001	CFDA Number(s): 97.044
Federal Program Name and Granting Agency: Assistance to Firefighters Grant U.S. Department of Homeland Security/Federal Emergency Management Agency (FEMA)		Pass-Through Agency Name: NA	
Finding Caption: The City did not have adequate internal controls to ensure compliance with federal suspension and debarment requirements.			
Background: The fiscal year 2016 audit found that the City paid two contractors more than \$25,000 and did not obtain a written certification, insert a clause into the contract or review EPLS to verify the contractors were not suspended or debarred before the City entered into the contracts. However, we were able to verify the contractors were not suspended or debarred and are not questioning costs for the payments.			
Status of Corrective Action: (check one) <input checked="" type="checkbox"/> Fully Corrected <input type="checkbox"/> Partially Corrected <input type="checkbox"/> Not Corrected <input type="checkbox"/> Finding is considered no longer valid			
Corrective Action Taken: <i>The City has implemented a centralized suspension and debarment verification process. The City's Purchasing Department is responsible for verifying all vendors are in compliance with the suspension and debarment requirement.</i>			

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

**City of Everett
January 1, 2017 through December 31, 2017**

Mayor and City Council
City of Everett
Everett, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, the aggregate remaining fund information and the aggregate discretely presented component units of the City of Everett, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated July 27, 2018. As discussed in Note 19 to the financial statements, the Everett Public Facilities District, a discretely presented component unit, has restated its previously issued 2016 financial statements for the correction of a misstatement. This correction did not affect the net position.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be

material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Audit Findings and Responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Audit Findings and Responses as Finding 2017-001 to be material weaknesses.

COMPLIANCE AND OTHER MATTERS

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

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

RESPONSE TO FINDINGS

The response to the findings identified in our audit is described in the accompanying Schedule of Audit Findings and Responses and was prepared by the Everett Public Facilities District. The response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the

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

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

Pat McCarthy
State Auditor
Olympia, WA

July 27, 2018

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

**City of Everett
January 1, 2017 through December 31, 2017**

Mayor and City Council
City of Everett
Everett, Washington

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

We have audited the compliance of the City of Everett, 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, 2017. 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, 2017.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

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

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

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

Purpose of this Report

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

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

Pat McCarthy

State Auditor

Olympia, WA

September 12, 2018

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

City of Everett January 1, 2017 through December 31, 2017

Mayor and City Council
City of Everett
Everett, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, the aggregate remaining fund information and the aggregate discretely presented component units of the City of Everett, as of and for the year ended December 31, 2017, 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, the aggregate remaining fund information and the aggregate discretely presented component units of the City of Everett, as of December 31, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis – Correction of Prior Year Misstatement

As discussed in Note 19 to the financial statements, the Everett Public Facilities District, a discretely presented component unit, has restated its previously issued 2016 financial statements for the correction of a misstatement. This correction did not affect the net position. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information listed on page 20 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 July 27, 2018 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral

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

A handwritten signature in cursive script that reads "Pat McCarthy".

Pat McCarthy

State Auditor

Olympia, WA

July 27, 2018

FINANCIAL SECTION

City of Everett January 1, 2017 through December 31, 2017

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2017

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2017

Statement of Activities – 2017

Balance Sheet – Governmental Funds – 2017

Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position – 2017

Statement of Revenues, Expenditures and Changes in Fund Net Position – Governmental Funds – 2017

Reconciliation of Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities – 2017

Statement of Net Position – Proprietary Funds – 2017

Statement of Revenues, Expenses and Changes in Fund Net Position – Proprietary Funds – 2017

Statement of Cash Flows – Proprietary Funds – 2017

Statement of Fiduciary Net Position – Fiduciary Funds – 2017

Statement of Changes in Fiduciary Net Position – Fiduciary Funds – 2017

Notes to the Financial Statements – 2017

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual General Fund – 2017

Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual Capital Improvement Reserve Fund – 2017

Notes to Budgetary Comparison Schedules – 2017

Schedule of Changes in the City's Net Pension Liability and Related Ratios – Fire and Police Pension Funds – 2017

Schedule of City Contributions – Fire and Police – 2017

Schedule of Investment Returns – Fire and Police – 2017

Schedule of Proportionate Share of the Net Pension Liability – PERS 1, PERS 2/3,
LEOFF 1, LEOFF 2, PSERS 2 – 2017

Schedule of Employer Contributions – PERS 1, PERS 2/3, LEOFF 2, PSERS 2 – 2017

Other Post Employment Benefit Funds – Schedule of Contributions from the Employer
and Other Contributing Entities – Fire and Police Healthcare Funds – 2017

Other Post Employment Benefit Funds – Schedules of Funding Progress – Fire and
Police Healthcare Funds – 2017

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Expenditures of Federal Awards – 2017

Notes to the Schedule of Expenditures of Federal Awards – 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the City of Everett's annual financial report provides a narrative overview of the City's financial activities for the fiscal year ended December 31, 2017. The intent of this discussion and analysis is to review the City's financial performance as a whole. Please read it in conjunction with the Letter of Transmittal, the Financial Statements, and the Notes to the Financial Statements.

2017 FINANCIAL HIGHLIGHTS

- At December 31, 2017, the City's net position, the amount by which total assets and deferred outflows exceed total liabilities and deferred inflows, totaled \$960.7 million. Of this amount, \$746.8 million, or 77.7%, is invested in capital assets that support the activities of the City. Of the remaining net position, \$146.7 million is unrestricted and may be used to meet the City's ongoing obligations.
- The net position of the governmental activities was \$456.3 million, an increase of \$8 million, or 1.8% over 2016. The growth was due primarily to increases in general tax revenues of \$2.1 million, particularly business and excise taxes, and services provided to business-type activities. Increases in tax revenue are an indicator of improved economic activity.
- Business-type activities reported net position of \$504.3 million, which represents an increase of \$45.6 million, or 10% over 2016. The growth was due primarily to increases in charges for services of \$9.4 million and contributed capital of \$26.7 million as well as an increase in tax revenue of \$0.5 million. The majority of growth in service revenue was in water and sewer due to rate increases effective March 4, 2017. Rate increases are intended to improve the function of the sewer and stormwater system as well as sustain and improve the aging water system

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

The government-wide statements distinguish between functions of the City that are principally supported by taxes and intergovernmental revenues (referred to as "governmental activities") from functions that are intended to recover all or a significant portion of their costs through user fees and charges (referred to as "business-type activities"). The City also includes the Everett Public Facilities District (EPFD) as a discretely presented component unit in its report. A component unit is a governmental unit over which the City can exercise influence and/or may be obligated to provide a financial subsidy. The EPFD is presented in a separate column in the government-wide statements. This presentation allows users of the government-wide financial statements to focus on the primary government as well as address the City's relative relationship with the EPFD.

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

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

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

FUND FINANCIAL STATEMENTS

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

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City uses funds to ensure and demonstrate fiscal accountability and compliance with finance-related legal requirements. The City's funds fall into three types: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds account for most of the City's tax-supported activities and are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, the focus of governmental fund financial statements is on near-term inflows and outflows of spendable resources and on balances of spendable resources available at the end of the fiscal year. Such information is useful in evaluating whether there are more or less financial resources that can be spent in the near future to finance City services. Approximately 23% of total governmental fund balances is considered nonspendable and not available to finance City services in the near future. Nonspendable balances consist mainly of loans receivable from the component unit, Everett Public Facilities District.

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

Because the focus of governmental fund financial statements is narrower than that of the government-wide financial statements, it is useful to compare information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. This gives the reader a better understanding of the long-term impact of the government's near-term financing decisions. Both the Governmental Fund Balance Sheet and the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances provide a reconciliation to the governmental activities column in the government-wide statements to facilitate this comparison.

The City maintains budgetary controls over its governmental funds. Budgetary controls ensure compliance with legal provisions embodied in the annual appropriated budget. Governmental fund budgets are established in accordance with state law and are adopted on a fund level. General Fund budget variances are reviewed later in this discussion and analysis.

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

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

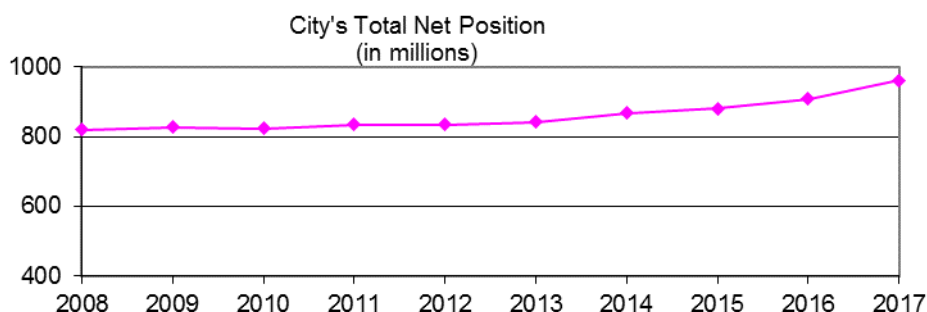
OTHER INFORMATION

In addition to the basic financial statements and accompanying notes, this report contains certain required supplementary information concerning the City's Fire and Police Pension Funds and Other Post Employment Benefit Funds. Information is also provided for the City's participation in state retirement plans.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, changes in net position over time may serve as a useful indicator of a government's financial position. The City's total net position at December 31, 2016, was \$907.2 million. At December 31, 2017, the total net position was \$960.7 million. As the chart below illustrates, the City's net position was relatively unchanged from 2007 through 2013 but has been growing since 2014.



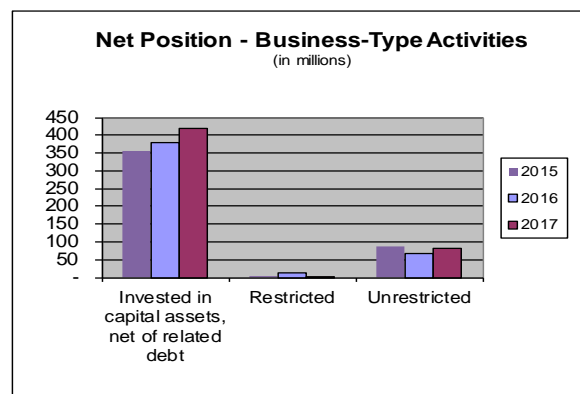
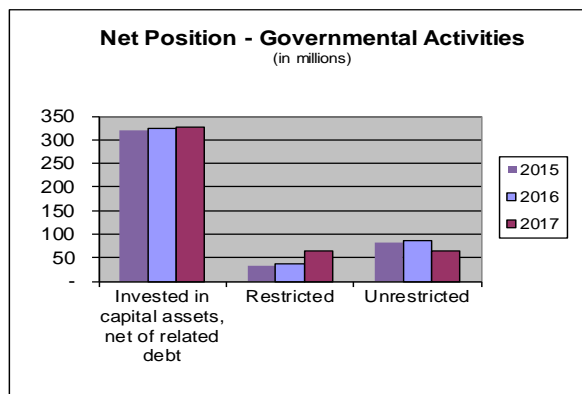
Elements contributing to the change in net position are discussed in the Governmental and Business-Type Activities Analysis sections. The table below presents a condensed version of the Government-Wide Statement of Net Position.

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

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2017	2016	2017	2016	2017	2016
Current and other assets	\$ 221,456	\$ 206,645	\$ 113,193	\$ 111,617	\$ 334,649	\$ 318,262
Capital assets, net	345,151	342,978	635,058	599,485	980,209	942,463
Total assets	566,607	549,623	748,251	711,102	1,314,858	1,260,725
Total deferred outflows of resources	6,766	12,469	10,858	13,131	17,624	25,600
Long-term liabilities	98,650	105,735	243,330	260,449	341,980	366,184
Other liabilities	7,852	6,036	7,672	4,128	15,524	10,164
Total liabilities	106,502	111,771	251,002	264,577	357,504	376,348
Total deferred inflows of resources	10,496	1,916	3,773	886	14,269	2,802
Net position						
Net investment in capital assets	328,134	324,976	418,695	381,208	746,829	706,184
Restricted	64,268	36,714	2,917	11,800	67,185	48,514
Unrestricted (deficit)	63,973	86,715	82,722	65,762	146,695	152,477
Total net position	\$ 456,375	\$ 448,405	\$ 504,334	\$ 458,770	\$ 960,709	\$ 907,175

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

Restricted assets represent resources that are subject to external restrictions on how they may be used. The Statement of Net Position further breaks out restricted assets into major categories. For example, \$9.2 million in assets obtained through the Emergency Medical Services levy and criminal justice grant funding are restricted to public safety use. The 2017 year-end unrestricted net position of \$64 million in governmental activities and \$82.7 million in business-type activities may be used to meet ongoing obligations.



At December 31, 2017, the City reported positive balances in all three categories of net position for both governmental and business-type activities. The same situation has held true for the past ten years.

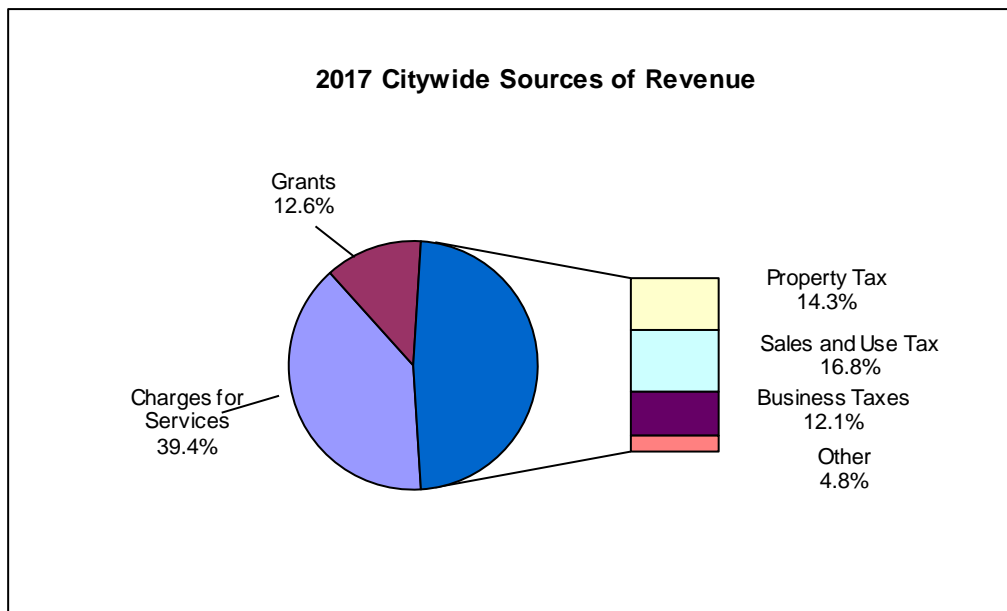
The table below contains condensed financial information derived from the government-wide statement of activities comparing the current year to the prior year.

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

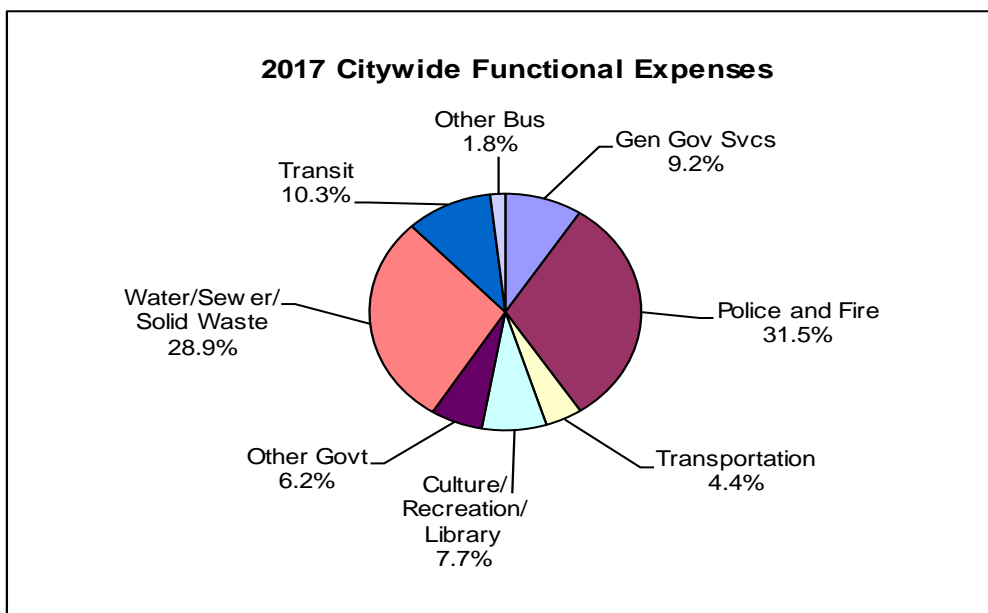
	Governmental Activities		Business-Type Activities		Total Primary Government	
	2017	2016	2017	2016	2017	2016
Revenues						
Program revenues:						
Charges for services	\$ 15,886	\$ 14,084	\$ 101,886	\$ 92,535	\$ 117,772	\$ 106,619
Operating grants and contributions	4,057	4,099	2,240	1,600	6,297	5,699
Capital grants and contributions	3,480	6,355	28,054	1,974	31,534	8,329
General revenues:						
Property taxes	42,794	42,083			42,794	42,083
Sales taxes	30,850	29,684	19,553	18,960	50,403	48,644
Business taxes	36,264	35,969	100	100	36,364	36,069
Other taxes	14,120	14,199	116	235	14,236	14,434
Sale of assets	69	137	(39)	139	30	276
Interest and investment earnings	988	2,669	151	2,373	1,139	5,042
TOTAL REVENUES	\$ 148,508	\$ 149,279	\$ 152,061	\$ 117,916	\$ 300,569	\$ 267,195
Program Expenses						
Governmental activities:						
General government services	\$ 22,623	\$ 21,194	\$ -	\$ -	\$ 22,623	\$ 21,194
Police	40,030	36,708	-	-	40,030	36,708
Fire	37,788	31,861	-	-	37,788	31,861
Engineering & construction services	5,813	5,392	-	-	5,813	5,392
Transportation	10,853	12,250	-	-	10,853	12,250
Community services	5,453	5,331	-	-	5,453	5,331
Library	5,573	5,845	-	-	5,573	5,845
Culture and recreation	13,519	14,278	-	-	13,519	14,278
Judicial	2,168	2,177	-	-	2,168	2,177
Social services	1,213	1,119	-	-	1,213	1,119
Interest on long-term debt	709	557	-	-	709	557
Business-type activities:						
Water			33,894	32,810	33,894	32,810
Sewer			36,704	36,480	36,704	36,480
Solid waste			698	672	698	672
Parking			278	300	278	300
Transit			25,510	23,648	25,510	23,648
Golf			4,208	4,336	4,208	4,336
TOTAL EXPENSES	\$ 145,742	\$ 136,712	\$ 101,292	\$ 98,246	\$ 247,034	\$ 234,958
Increases (decreases) in net position before special items and transfers	\$ 2,766	\$ 12,567	\$ 50,769	\$ 19,670	\$ 53,535	\$ 32,237
Transfers	5,204	4,944	(5,204)	(4,944)	-	-
Increase in net position	\$ 7,970	\$ 17,511	\$ 45,565	\$ 14,726	\$ 53,535	\$ 32,237
Net position - beginning	448,405	434,324	458,770	446,153	907,175	880,477
Prior period adjustment		(3,430)		(2,109)	-	(5,539)
Net position - ending	\$ 456,375	\$ 448,405	\$ 504,335	\$ 458,770	\$ 960,710	\$ 907,175

As shown in the chart below, taxes made up 48% of total revenue received by the City as a whole in 2017. Total tax revenues increased by \$2.5 million, mostly due to increases in sales and business taxes suggesting improvement in

the overall economy as well as an increase in service rates. Of the 39.4% in charges for services, 86.5% is from business-type activities.



The following chart compares the functional expenses of the City. The largest expense is the combined police/fire functions, making up over 31% of the City's total expenses. A close second is the combined water/sewer/solid waste functions. These functions combined make up over 60% of the functional expenses of the City.

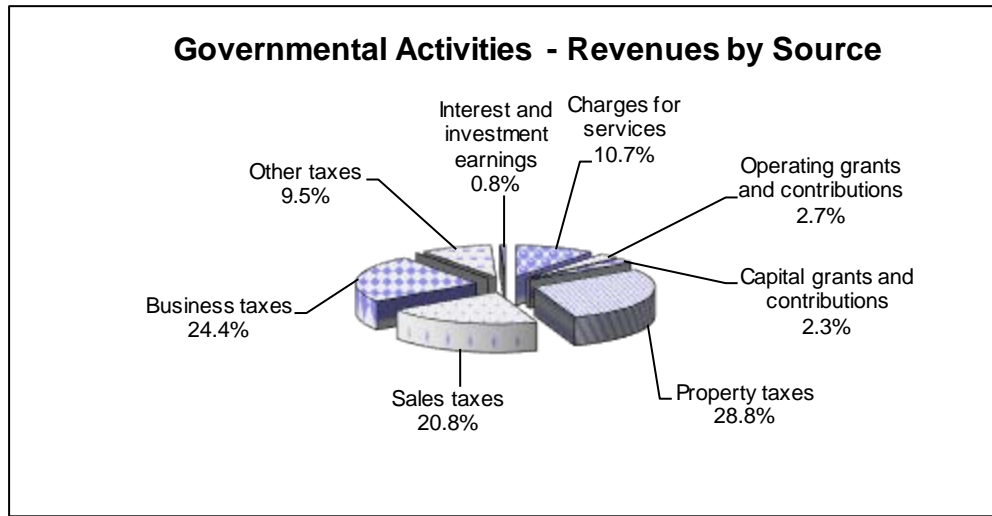


GOVERNMENTAL ACTIVITIES ANALYSIS

As shown in the Statement of Activities, total expenses for all governmental activities in 2017 were \$145.7 million. Of this amount, \$23.4 million was paid for by those who directly benefited from the programs or by other governments and organizations that subsidized certain programs with grants and contributions. The net expense (total expenses less program revenues) of \$122.3 million was the cost of governmental activity services paid primarily by City taxpayers.

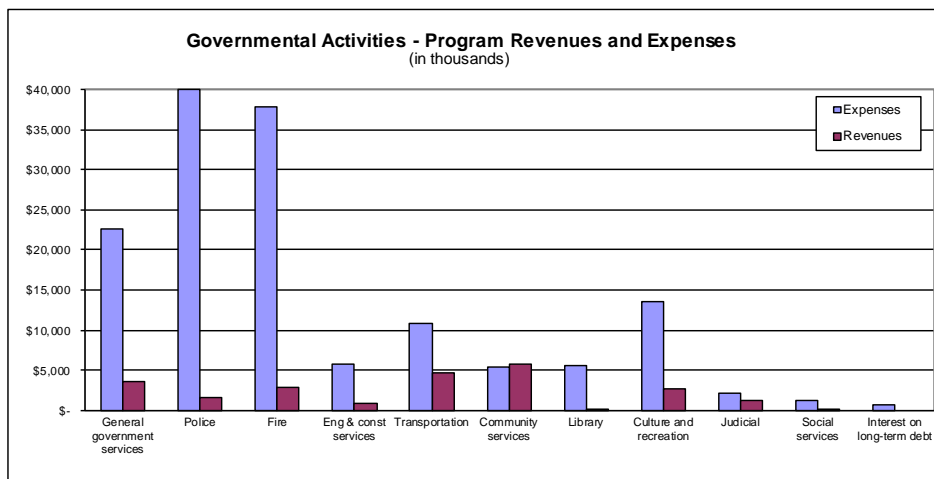
Revenues

Total governmental activity revenues (excluding transfers) decreased by \$0.7 million, due mostly to a decrease in capital grants and contribution and interest earnings. Sales and business tax revenues increased by \$1.5 million due to an improving local economy.



Expenses

Total governmental activity expenses for 2017 were \$145.7 million, an increase of \$9 million from 2016. Police and Fire activities account for over 50% of governmental activity expenses. The increase in expenses was due largely to the following: in general government – a net increase in costs provided by other funds and an increase in the use of external services; in police and fire – an increase in net pension obligation arising from a change in assumptions in determining liability and expense.

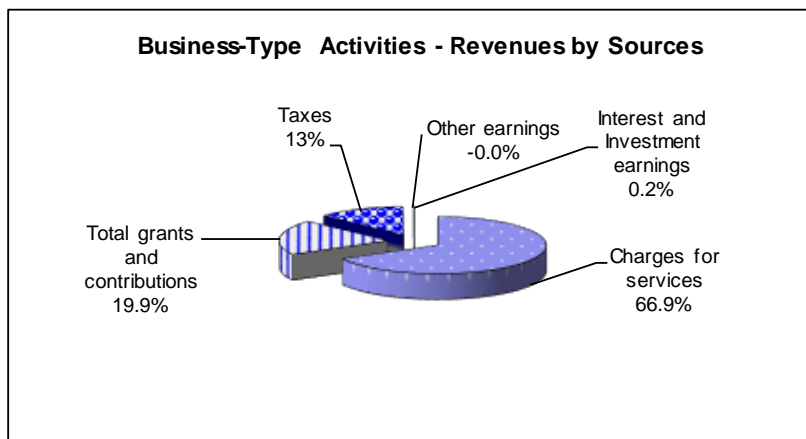


BUSINESS-TYPE ACTIVITIES ANALYSIS

In 2017, program revenues provided \$132.2 million to cover \$101.3 million in business-type activity expenses, providing a net gain of \$30.9 million.

Revenues

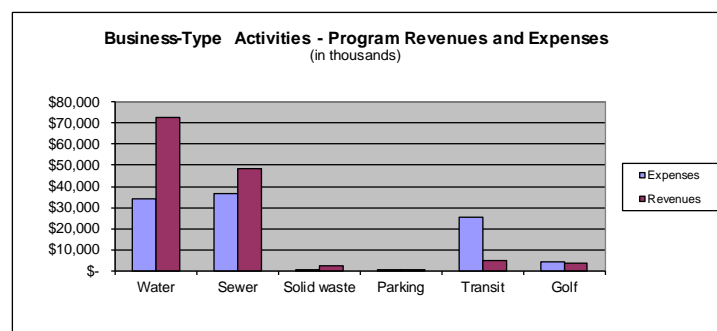
Total business-type revenues increased by \$34 million from the prior year. As shown in the chart below, the majority of business-type activity revenue is from charges for services, which grew by \$9.3 million from 2016 due mainly to a rate increase implemented to address the City's capital replacement and improvement programs and finance inflation-based cost increases in operations and maintenance. This increase was aided by a \$26.7 million increase in grants and capital contributions arising from the acceptance of the City's segment share of the Everett-Tulalip joint water line. Grant and capital contribution revenue can fluctuate widely from year to year based on a number of factors, including the availability of federal and state grants, whether the City has applied for and received grant awards, and whether the City has major capital projects in progress. Sales tax growth of 2.5% indicates a return of consumer confidence and a strengthening business climate.



Expenses

Total business-type expenses for 2017 were \$101.3 million, an increase of \$3 million from 2016. The increase is shared by the combined water/sewer function due to major maintenance and repair programs related to the rate increases implemented in 2016 and 2017, and the transit function related to an increase in services provided by other funds.

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



FUND-LEVEL FINANCIAL ANALYSIS

GOVERNMENTAL FUNDS

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

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

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

At year-end, the governmental funds reported a combined ending fund balance of \$159.9 million. This is a \$4 million increase from the prior year-end. The increase is due to improvement in the local economy, which positively influenced tax revenues--business & occupation tax, real estate excise tax, and sales tax in particular in particular.

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

General Fund – The general fund is the City's primary operating fund and the largest funding source for day-to-day service delivery. As a result of the requirements established by GASB Statement No. 54, several funds previously classified as special revenue funds are now combined in reporting with the general fund. Without the consolidation, the fund balance decreased by \$3.2 million or 4.6%. The decrease was mostly due to an increase in labor and overtime costs in police and fire and jail fees and a decrease in transfers to the CIP fund.

Capital Improvement Reserve Fund – The City's other major governmental fund recorded an increase of \$4 million in fund balance. As the name indicates, this fund accumulates money to pay for capital projects; therefore, expenditures and fund balance can fluctuate widely from year to year.

Other Governmental Funds – Total fund balance for other governmental funds increased by \$1.3 million, primarily due to a decrease in principal and interest payments in the real estate excise special revenue fund.

BUSINESS-TYPE FUNDS

Water/Sewer Utility Fund – This fund is the largest business-type fund in the City, accounting for \$443.4 million, or 88%, of the business-type net position. Of this amount, \$358.3 million is invested in capital assets, \$2.8 million is classified as restricted for debt service, and \$82.3 million is classified as unrestricted. The fund's 2017 net income, before contributions and transfers, was \$22.2 million, which is an increase of 51% over 2016. Due to the nature of full accrual accounting to which business-type funds are subject, this increase covers a substantial part of the increased investment in capital assets. The Utility has the ability to set rates to cover anticipated operating as well as capital project costs.

Transit Fund – This is the City's other major business-type fund. It reported a \$21.5 million operating loss in 2017 (before non-operating revenues and capital contributions). The loss was reduced by the voter approved 0.6% sales tax, which is dedicated for transit purposes. Total sales tax collections in 2017 totaled \$19.7 million, an increase of \$0.5 million over 2016. Sales taxes are not considered operating revenue in business-type funds because they are collected from the general public and are not user-based.

Other Business-type Funds – The Golf Fund reported a net loss of \$273,932 compared to net loss of \$319,547 in 2016. Management continues to implement elements of its business plan to increase revenues and decrease expenses. The Solid Waste Fund balance increased \$1.8 million from 2016, largely due to an increase in charges for services linked to increased rates in Utilities as well as decreased operating expenses. The Parking Garage Fund continues to cover expenses with parking fees and interest revenue.

GENERAL FUND BUDGETARY HIGHLIGHTS

2017 Original budget compared to final budget

The final General Fund revenue budget (including transfers-in) was \$1.8 million, or 1.6% greater than the original budget. State Shared revenues were increased \$1,256,000 to recognize contributions provided by the State on behalf of the City's LEOFF 2 retirement system. Intergovernmental revenue was increased by \$229,450 to account for wildland fire assistance provided to other agencies. Also of note, just over \$2.0 million was reclassified from charges for services to transfers in to better reflect the nature of the movement of funds from the Criminal Justice Fund to the General Fund.

The final expenditure budget (including transfers-out) was \$10.4 million or 9.6% greater than the original budget. This included \$1,256,000 added to the police and fire LEOFF 2 pension budgets related to the state shared revenue increase noted above. It also included \$7.5 million re-appropriated from the 2016 budget to prefund contributions to the LEOFF 1 Police and Fire pensions, insurance, and facilities reserve fund. The re-appropriation to prefund expenditures was possible due to savings in labor from the large number of vacancies in 2016.

2017 Actual results compared to final budget

General Fund revenue came in below the final amended budget by \$1.3 million or 1.2%. The largest shortfall was in the Charges for Services category with plan check fees coming in \$725,000 below budget due to less activity than expected. B&O taxes also fell short of budget by \$551,000.

Actual expenditures ended the year \$5.4 million or 4.6% under budget. The majority of under-expenditures, \$4.1 million, was the result of labor savings from vacant positions throughout the year. Under expenditures from 2017 were re-appropriated in 2018 to prefund 2019 reserve contributions as we continue to work to close future budget gaps.

CAPITAL ASSET AND DEBT ADMINISTRATION

CAPITAL ASSETS

As of December 31, 2017, the City of Everett's investment in capital assets, including construction in progress, for its governmental and business-type activities amounted to \$980.2 million. The year-end balance represents a net increase (additions less retirements and depreciation) of \$37.7 million from the end of the prior year.

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

	Governmental Activities		Business-Type Activities		Total Activities	
	2017	2016	2017	2016	2017	2016
Land	\$ 60,410	\$ 60,410	\$ 37,846	\$ 34,536	\$ 98,256	\$ 94,946
Buildings	60,461	62,823	152,006	150,838	212,467	213,661
Improvements other than buildings	18,113	19,318	398,485	357,482	416,598	376,800
Infrastructure	191,055	184,640	1,342	1,439	192,397	186,079
Machinery and equipment	11,816	11,948	15,799	14,760	27,615	26,708
Intangibles	260	344	9,438	9,709	9,698	10,053
Construction in progress	3,036	3,495	20,142	30,721	23,178	34,216
	<u>\$ 345,151</u>	<u>\$ 342,978</u>	<u>\$ 635,058</u>	<u>\$ 599,485</u>	<u>\$ 980,209</u>	<u>\$ 942,463</u>

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

- 2017 overlay program.....\$ 4.4
- Vehicle replacement2.5
- Freight corridor improvements2.0

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

- Equipment upgrades and replacement\$ 3.3
- Grand Avenue Park bridge3.2
- Smith Street land for Everett Station parking and future operations3.1
- Sewer system replacement “M”3.1
- Sewer system replacement “L”3.0
- Water filtration operation building seismic retrofit2.3
- Water main replacement “R”1.3
- Combined sewer overflow (CSO) modifications.....1.2

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

DEBT ADMINISTRATION

As shown in the table below, the City’s total outstanding debt at December 31, 2017, was \$249.5 million. Of this amount, \$44.4 million is bonded debt backed by the full faith and credit of the City, \$174.4 million is bonded debt secured solely by water and sewer user fees, and \$30.8 million is in Public Works Trust Fund and State Revolving Fund loans.

The City’s total debt outstanding decreased by a net amount (new issues less principal payments and refundings) of \$13.3 million from the prior year-end. The major debt transactions that contributed to this change are detailed below.

- The City redeemed \$7.1 million of revenue debt
- The City redeemed \$3.1 million of general obligation debt
- The City redeemed \$3.3 million of other long-term debt

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

	Governmental Activities		Business-Type Activities		Total Activities	
	2017	2016	2017	2016	2017	2016
General obligation bonds	\$ 42,355	\$ 44,500	\$ 2,000	\$ 3,000	\$ 44,355	\$ 47,500
Revenue debt	-	-	174,395	181,515	174,395	181,515
Other long-term debt	1,535	1,526	29,264	32,343	30,799	33,869
	<u>\$ 43,890</u>	<u>\$ 46,026</u>	<u>\$ 205,659</u>	<u>\$ 216,858</u>	<u>\$ 249,549</u>	<u>\$ 262,884</u>

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

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Principal factors influencing the City's 2018 budget include: continued improvement in retail sales and business revenues stemming from robust construction activity and growth in the overall economy, and property tax revenue growth limited to 1% on the base, plus adjustments for new construction and annexations.

Other economic factors considered when preparing the City's 2018 budget included:

- Economic activity is expected to be moderate.
- Population is expected to increase by 1% in 2018.
- The inflation rate (as measured by the June to June Seattle/Urban Consumer Price Index) is expected to remain low. The rate used for factors affecting the 2018 budget was 1.8%.
- Interest rates are expected to increase slightly through 2018, even with the first 0.25% increase implemented in December 2015. Expectations are for the Federal Reserve to continue to move slowly to remove accommodation from its monetary policy.

Some of the specific steps taken to balance the 2018 budget include: raising the revenue forecast 1%, reducing the health benefits forecast by 8%, and prepaying reserve contributions from prior year carryforwards.

REQUESTS FOR FINANCIAL INFORMATION

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



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**STATEMENT OF NET POSITION
DECEMBER 31, 2017**

	Primary Government			Component Unit
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	EVERETT PUBLIC FACILITIES DISTRICT
ASSETS				
Cash and cash equivalents	\$ 15,954,088	\$ 18,691,450	\$ 34,645,538	\$ 738,546
Deposits with trustees	52,822	187,738	240,560	
Investments	116,301,788	77,470,622	193,772,410	
Receivables, net	57,286,156	16,178,647	73,464,803	985,435
Internal balances	4,881,798	(4,881,798)	-	
Inventories	802,602	1,048,709	1,851,311	
Prepayments	95,181	158,901	254,082	208,276
Restricted:				
Cash and cash equivalents	-	792,017	792,017	2,329,333
Investments	-	2,875,169	2,875,169	
Special assessments	102,232	2,520	104,752	
Net pension assets	24,887,889	-	24,887,889	
Investment in joint venture	1,091,652	669,332	1,760,984	
Land	60,409,823	37,845,776	98,255,599	257,074
Construction in progress	3,035,795	20,141,694	23,177,489	
Capital assets, net (Note 6)	281,705,167	577,070,141	858,775,308	36,841,609
TOTAL ASSETS	\$ 566,606,993	\$ 748,250,918	\$ 1,314,857,911	\$ 41,360,273
DEFERRED OUTFLOWS OF RESOURCES				
Deferred charge on refunding	\$ -	\$ 7,796,958	\$ 7,796,958	\$ -
Deferred outflows related to pensions	6,765,560	3,061,575	9,827,135	
TOTAL DEFERRED OUTFLOWS OF RESOURCES	\$ 6,765,560	\$ 10,858,533	\$ 17,624,093	\$ -
COMBINED ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 573,372,553	\$ 759,109,451	\$ 1,332,482,004	\$ 41,360,273
LIABILITIES				
Accounts payable and other current liabilities	\$ 7,333,132	\$ 7,115,825	\$ 14,448,957	\$ 1,100,283
Unearned revenues	518,893	556,321	1,075,214	340,207
Non-current liabilities (Note 12):				
Due within one year	13,164,525	14,052,469	27,216,994	1,490,000
Due in more than one year	54,884,720	210,795,228	265,679,948	45,713,154
Net Pension Liabilities	24,680,800	18,482,219	43,163,019	
Net OPEB obligations	5,919,487	-	5,919,487	
TOTAL LIABILITIES	\$ 106,501,557	\$ 251,002,062	\$ 357,503,619	\$ 48,643,644
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows related to pensions	\$ 10,496,063	\$ 3,772,633	\$ 14,268,696	\$ -
Deferred inflows related to concession agreement	-	-	-	446,250
COMBINED LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	\$ 116,997,620	\$ 254,774,695	\$ 371,772,315	\$ 49,089,894
NET POSITION				
Net Investment in capital assets	\$ 328,133,996	\$ 418,695,645	\$ 746,829,641	\$ (10,533,737)
Restricted for:				
Capital projects	327,865	-	327,865	-
Debt service	224,339	2,917,186	3,141,525	2,329,333
Public safety	9,225,910	-	9,225,910	
Transportation	12,040,071	-	12,040,071	
Parks and recreation	2,336,065	-	2,336,065	
Community development projects	14,308,369	-	14,308,369	
Library	85,197	-	85,197	
Tourism	590,018	-	590,018	
Economy	242,079	-	242,079	
Related to pension	24,887,889	-	24,887,889	
Unrestricted	63,973,135	82,721,925	146,695,060	474,783
TOTAL NET POSITION	\$ 456,374,933	\$ 504,334,756	\$ 960,709,689	\$ (7,729,621)

The accompanying notes are an integral part of this statement.

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2017
(PAGE 1 OF 2)

		PROGRAM REVENUES		
FUNCTIONS/PROGRAMS	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government services	\$ 22,623,200	\$ 3,383,408	\$ -	\$ 232,335
Police	40,030,005	600,860	966,392	-
Fire	37,788,276	2,135,469	794,513	-
Engineering & construction services	5,812,669	860,965	-	-
Transportation	10,852,691	1,487,851	-	3,166,996
Community services	5,453,090	4,214,224	1,511,586	-
Library	5,573,225	73,892	70,211	383
Culture and recreation	13,519,056	1,895,467	698,064	80,500
Judicial	2,168,130	1,231,510	-	-
Social Services	1,212,773	2,402	16,232	-
Interest on long-term debt	708,789	-	-	-
Total governmental activities	145,741,904	15,886,048	4,056,998	3,480,214
Business-type activities:				
Water	33,894,010	45,103,720	250	27,440,206
Sewer	36,704,554	47,485,293	294,249	577,284
Solid waste	697,533	2,415,968	60,749	-
Parking	277,651	356,424	-	-
Transit	25,509,526	2,695,314	1,884,334	36,469
Golf	4,208,368	3,828,912	-	-
Total business-type activities	101,291,642	101,885,631	2,239,582	28,053,959
Total primary government	\$ 247,033,546	\$ 117,771,679	\$ 6,296,580	\$ 31,534,173
Component units:				
Everett Public Facilities District	\$ 9,307,835	\$ 6,236,780	\$ 2,816,570	\$ -

General revenues:

Property taxes
Sales taxes
Business taxes
Excise taxes
Allocation of state-imposed taxes
Sale of assets
Interest and investment earnings

Transfers

Total general revenues and transfers

Change in net position

Net position - beginning

Net position - ending

The accompanying notes are an integral part of this statement.

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2017
(PAGE 2 OF 2)

NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION				
Primary Government			Component Unit	
Governmental Activities	Business-Type Activities	Total	Everett Public Facilities District	
\$ (19,007,457)	\$ -	\$ (19,007,457)		
(38,462,753)	-	(38,462,753)		
(34,858,294)	-	(34,858,294)		
(4,951,704)	-	(4,951,704)		
(6,197,844)	-	(6,197,844)		
272,720	-	272,720		
(5,428,739)	-	(5,428,739)		
(10,845,025)	-	(10,845,025)		
(936,620)	-	(936,620)		
(1,194,139)	-	(1,194,139)		
(708,789)	-	(708,789)		
(122,318,644)	-	(122,318,644)		
-	38,650,166	38,650,166		
-	11,652,272	11,652,272		
-	1,779,184	1,779,184		
-	78,773	78,773		
-	(20,893,409)	(20,893,409)		
-	(379,456)	(379,456)		
-	30,887,530	30,887,530		
\$ (122,318,644)	\$ 30,887,530	\$ (91,431,114)		
			\$ (254,485)	
42,793,716	-	42,793,716		
30,849,860	19,552,780	50,402,640		
36,263,662	99,620	36,363,282		
9,212,000	-	9,212,000		
4,908,151	115,526	5,023,677		
68,691	(36,870)	31,821		
987,777	150,940	1,138,717		
5,204,561	(5,204,561)	-		
130,288,418	14,677,435	144,965,853		
7,969,774	45,564,965	53,534,739	(254,485)	
448,405,159	458,769,791	907,174,950	(7,475,136)	
\$ 456,374,933	\$ 504,334,756	\$ 960,709,689	\$ (7,729,621)	

The accompanying notes are an integral part of this statement.

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2017**

	GENERAL FUND	CAPITAL IMPROVEMENT RESERVE FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS				
Cash and cash equivalents	\$ 9,254,255	\$ 5,459,987	\$ 814,119	\$ 15,528,361
Change and imprest funds	46,724	-	-	46,724
Deposits with trustee	52,823	-	-	52,823
Investments	36,573,389	21,429,395	32,569,673	90,572,457
Receivables, net				
Taxes	11,695,523	403,603	403,603	12,502,729
Customer accounts	150,821	65,405	93,319	309,545
Interest	196,226	19,714	30,927	246,867
Other Current Receivables	-	-	39	39
Due from other funds	41,064	800,000	3,733	844,797
Interfund receivable	386,704	-	-	386,704
Due from other governmental units	225,765	-	410,766	636,531
Due from component unit	28,397,100	26,409	-	28,423,509
Special assessments - non-current	-	-	102,232	102,232
Notes/contracts receivable	1,140,000	-	12,861,554	14,001,554
Advances to other funds	6,549,168	-	-	6,549,168
TOTAL ASSETS	\$ 94,709,562	\$ 28,204,513	\$ 47,289,965	\$ 170,204,040
LIABILITIES				
Wages payable	\$ 2,389,788	\$ -	\$ 267,864	\$ 2,657,652
Accounts payable	1,949,220	-	952,783	2,902,003
Due to other funds	805,258	-	39,439	844,697
Interfund payable	-	-	155,975	155,975
Due to other governmental units	165,104	-	644	165,748
Custodial accounts	256,142	-	-	256,142
Revenues collected in advance	79,124	-	405,042	484,166
Other liabilities	477,802	128	519	478,449
Unearned Revenue	-	-	34,025	34,025
TOTAL LIABILITIES	6,122,438	128	1,856,291	7,978,857
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenues-property taxes	993,805	-	-	993,805
Unavailable revenues-special assessments	-	-	102,232	102,232
Unavailable revenues-other	1,242,600	-	-	1,242,600
TOTAL DEFERRED INFLOWS OF RESOURCES	2,236,405	-	102,232	2,338,637
FUND BALANCES				
Nonspendable	36,086,268	26,409	-	36,112,677
Restricted	-	327,865	39,052,048	39,379,913
Committed	233,838	-	-	233,838
Assigned	-	27,850,111	6,279,394	34,129,505
Unassigned	50,030,613	-	-	50,030,613
TOTAL FUND BALANCES	86,350,719	28,204,385	45,331,442	159,886,546
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 94,709,562	\$ 28,204,513	\$ 47,289,965	\$ 170,204,040

The accompanying notes are an integral part of this statement.

**RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
DECEMBER 31, 2017**

Total Fund Balances reported on the Balance Sheet - Governmental Funds	\$ 159,886,546
Amounts reported for governmental activities in the Balance Sheet - Governmental Funds differ from amounts reported in the government-wide Statement of Net Position by the following items:	
Capital assets reported in the government-wide Statement of Net Position not reported in the Balance Sheet - Governmental Funds	343,651,835
Assets and liabilities of internal service funds included in governmental activities in the government-wide Statement of Net Position not reported in the Balance Sheet - Governmental Funds	11,317,597
Unearned revenues reported in the Balance Sheet - Governmental Funds not reported in the government-wide Statement of Net Position	2,337,935
Accrued receivables reported in the government-wide Statement of Net Position not reported in the Balance Sheet - Governmental Funds	1,964,616
Net investment in joint venture reported in the government-wide Statement of Net Position not reported in the Balance Sheet - Governmental Funds	1,091,652
Amounts related to the net pension liability - (GASB 68)	(632,167)
Discount on notes receivable reported in the government-wide Statement of Net Position not reported in the Balance Sheet - Governmental Funds	(1,035,009)
Accrued pollution remediation liability reported in the government-wide Statement of Net Position not reported in the Balance Sheet - Governmental Funds	(1,550,050)
Net pension asset and net OPEB liability reported in the government-wide Statement of Net Position not reported in the Balance Sheet - Governmental	(5,817,444)
Long-term debt reported in the government-wide Statement of Net Position not reported in the Balance Sheet - Governmental Funds	(54,840,578)
Total Net Position reported on the government-wide Statement of Net Position	<u>\$ 456,374,933</u>

The accompanying notes are an integral part of this statement.

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2017

	GENERAL FUND	CAPITAL IMPROVEMENT RESERVE FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES				
Taxes	\$ 98,554,006	\$ 3,331,453	\$ 16,349,861	\$ 118,235,320
Licenses and permits	4,284,350	-	-	4,284,350
Intergovernmental revenues	4,295,129	-	7,829,368	12,124,497
Charges for services	8,007,122	-	3,260,930	11,268,052
Fines and forfeits	1,362,737	-	4,514	1,367,251
Other revenues	2,232,615	85,900	1,541,773	3,860,288
Total revenues	118,735,959	3,417,353	28,986,446	151,139,758
EXPENDITURES				
Current:				
General government services	28,300,158	-	67,401	28,367,559
Security of persons and property	65,867,171	-	8,891,667	74,758,838
Transportation	4,154,291	-	2,919,970	7,074,261
Economic environment	5,443,149	-	2,445,848	7,888,997
Mental and physical health	1,226,021	-	-	1,226,021
Culture and recreation	15,073,915	500,000	486,090	16,060,005
Capital outlay	2,824,175	-	11,772,349	14,596,524
Debt service:				
Principal	-	-	2,329,385	2,329,385
Interest	-	-	783,024	783,024
Other debt service costs	-	-	1,895	1,895
Total Expenditures	122,888,880	500,000	29,697,629	153,086,509
Excess (deficiency) of revenues over (under) expenditures	(4,152,921)	2,917,353	(711,183)	(1,946,751)
OTHER FINANCING SOURCES (USES)				
Disposition of capital assets	806,790	-	55,040	861,830
Transfers in	8,318,756	5,200,000	7,410,262	20,929,018
Transfers out	(6,232,893)	(4,156,082)	(5,447,488)	(15,836,463)
Other sources	-	-	19	19
Total other financing sources (uses)	2,892,653	1,043,918	2,017,833	5,954,404
Net change in fund balances	(1,260,268)	3,961,271	1,306,650	4,007,653
Fund balances - beginning	87,610,987	24,243,114	44,024,792	155,878,893
FUND BALANCES - ENDING	\$ 86,350,719	\$ 28,204,385	\$ 45,331,442	\$ 159,886,546

The accompanying notes are an integral part of this statement.

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2017**

Net change in fund balances for total governmental funds reported on the	\$ 4,007,653
Amounts reported for governmental activities in the Statement of Revenues,	
GASB 68 Adjustments	6,593,350
Governmental funds report capital outlays as expenditures. Government-wide statements establish capital outlays as assets and allocate the cost of depreciable assets over their estimated useful lives as depreciation expense. This item represents the amount by which capital outlays exceeded (or, if negative, were less than) depreciation expense in the current period.	2,852,739
Governmental funds report the proceeds from the issuance of long-term debt (e.g., bonds and leases) as revenues and the associated issuance costs as expense in the period the debt is issued. Government-wide statements report long-term debt as a liability and amortize issuance costs as expense over the life of the obligation. This item represents the net effect of these differences in the treatment of long-term debt and related items during the current period.	2,156,429
Internal service funds are used by management to charge the costs of fleet management, management information systems, self-insurance, employee health benefits, and telecommunications to individual funds. The net revenue (expense) of certain activities of internal service funds is reported with governmental activities.	402,409
Fair value of capital assets donated to the City reported in the government-wide statements during the current period.	232,335
Increase (decrease) to notes and interest receivable on the government-wide statements during the current period.	22,774
Increase (decrease) to non-current unearned revenue on the Balance Sheet - Governmental Funds during the current period.	(40,785)
Increase (decrease) to investment in joint venture reported in the government-wide statements during the current period.	(176,841)
Increase (decrease) to accrued receivables in the government-wide statements during the current period.	(181,135)
Disposition of capital assets (i.e., sales, trade-ins and transfers) results in a decrease in capital assets reported in the government-wide statements during the current period.	(796,611)
Increase (decrease) to the combined net pension asset and net OPEB liability on the government-wide statements during the current period.	(7,102,544)
Change in net position of governmental activities reported on the government-wide Statement of Activities	<u>\$ 7,969,773</u>

The accompanying notes are an integral part of this statement.

**STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2017**

	BUSINESS TYPE ACTIVITIES				GOVERNMENTAL ACTIVITIES -
	WATER & SEWER UTILITY	TRANSIT	OTHER ENTERPRISE FUNDS	TOTAL	INTERNAL SERVICE FUNDS
CURRENT ASSETS					
Cash and cash equivalents	\$ 18,013,581	\$ 609,437	\$ 68,431	\$ 18,691,449	\$ 379,003
Deposits with Trustee	-	187,738	-	187,738	-
Investments	68,061,937	4,763,817	4,644,867	77,470,621	25,729,331
Bond covenant accounts:					
Restricted cash and cash equivalents	40,718	-	1,299	42,017	-
Restricted investments	2,786,260	-	88,909	2,875,169	-
Receivables, net					
Taxes	-	3,721,081	-	3,721,081	-
Customer accounts	9,794,529	37,597	289,777	10,121,903	160,952
Interest	87,723	12,038	5,425	105,186	21,271
Due from other funds	1,525	-	64	1,589	-
Interfund loans	1,938,700	-	-	1,938,700	-
Due from other governments	1,292,513	890,511	47,454	2,230,478	53,606
Prepayments	-	-	-	-	95,182
Inventory	930,157	-	118,552	1,048,709	802,602
Total Current Assets	102,947,643	10,222,219	5,264,778	118,434,640	27,241,947
NONCURRENT ASSETS					
Restricted cash and cash equivalents	-	750,000	-	750,000	-
Prepayments	158,901	-	-	158,901	-
Special assessments	2,520	-	-	2,520	-
Investment in joint venture	669,332	-	-	669,332	-
Land	23,136,323	13,749,831	959,622	37,845,776	-
Construction in progress	19,197,649	883,504	60,541	20,141,694	-
Capital assets, net of depreciation (Note 6)	527,288,207	34,590,086	15,191,845	577,070,138	1,498,949
Total Noncurrent Assets	570,452,932	49,973,421	16,212,008	636,638,361	1,498,949
TOTAL ASSETS	673,400,575	60,195,640	21,476,786	755,073,001	28,740,896
DEFERRED OUTFLOWS OF RESOURCES					
Refunding of debt	7,796,958	-	-	7,796,958	-
Resources related to pensions	1,893,038	1,104,526	64,011	3,061,575	319,002
TOTAL DEFERRED OUTFLOWS OF RESOURCES	9,689,996	1,104,526	64,011	10,858,533	319,002
COMBINED ASSETS AND DEFERRED OUTFLOW OF RESOURCES	\$ 683,090,571	\$ 61,300,166	\$ 21,540,797	\$ 765,931,534	\$ 29,059,898
LIABILITIES					
CURRENT LIABILITIES					
Wages and benefits payable	\$ 1,279,170	682,930	\$ 47,809	\$ 2,009,909	\$ 145,526
Accounts payable	3,966,750	350,547	93,421	4,410,718	698,200
Claims and judgments payable	-	-	-	-	6,425,932
Interest payable	688,240	-	6,875	695,115	-
Taxes payable	230,557	16,461	12,060	259,078	972
Due to other funds	-	64	-	64	1,625
Interfund loans payable	-	-	1,938,700	1,938,700	-
Due to other governments	-	444,860	-	444,860	-
Unearned revenue	-	322,942	230,859	553,801	-
Current portion of long-term debt	11,596,604	-	1,002,012	12,598,616	-
Other current liabilities	-	821,500	-	821,500	314,265
Total Current Liabilities	17,761,321	2,639,304	3,331,736	23,732,361	7,586,520
NONCURRENT LIABILITIES					
Capital Leases Payable	47,109	-	-	47,109	-
General obligation bonds payable	-	-	1,002,851	1,002,851	-
Revenue bonds payable	181,047,308	-	-	181,047,308	-
Claims and judgments payable	-	-	-	-	5,103,289
Special assessment bonds payable	2,520	-	-	2,520	-
Advances from other funds	-	-	6,549,168	6,549,168	-
Loans payable	26,183,290	-	-	26,183,290	-
Net pension liability	11,408,010	6,827,369	246,840	18,482,219	3,004,760
Liabilities payable from restricted assets	-	750,000	-	750,000	-
Other long-term liabilities	870,435	488,108	334,624	1,693,167	74,354
Total Noncurrent Liabilities	219,558,672	8,065,477	8,133,483	235,757,632	8,182,403
TOTAL LIABILITIES	237,319,993	10,704,781	11,465,219	259,489,993	15,768,923
DEFERRED INFLOWS OF RESOURCES					
Resources related to pensions	2,322,513	1,358,786	91,334	3,772,633	307,532
TOTAL DEFERRED INFLOWS OF RESOURCES	2,322,513	1,358,786	91,334	3,772,633	307,532
COMBINED LIABILITIES AND DEFERRED INFLOW OF RESOURCES	\$ 239,642,506	\$ 12,063,567	\$ 11,556,553	\$ 263,262,626	\$ 16,076,455
NET POSITION					
Net Investment in Capital Assets	358,325,279	48,401,921	11,968,445	418,695,645	1,498,949
Restricted for debt service	2,826,978	-	90,208	2,917,186	-
Unrestricted	82,295,808	834,678	(2,074,409)	81,056,077	11,484,494
TOTAL NET POSITION	\$ 443,448,065	\$ 49,236,599	\$ 9,984,244	\$ 502,668,908	\$ 12,983,443
Amounts reported for business-type activities in the statement of net position are different because:					
The net effect of activities allocated from internal service funds is presented as an internal balance on the statement of net position.				1,665,848	
Net position of business-type activities				<u><u>\$ 504,334,756</u></u>	

The accompanying notes are an integral part of this statement.

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2017**

	BUSINESS-TYPE ACTIVITIES				GOVERNMENTAL ACTIVITIES -
	WATER & SEWER UTILITY	TRANSIT	OTHER ENTERPRISE FUNDS	TOTAL	INTERNAL SERVICE FUNDS
OPERATING REVENUES:					
Admission taxes	\$ -	\$ -	\$ 99,621	\$ 99,621	\$ -
Charges for services	91,361,715	1,355,841	6,601,306	99,318,862	34,147,060
Rental revenues	-	1,204,544	-	1,204,544	-
Total Operating Revenues	91,361,715	2,560,385	6,700,927	100,623,027	34,147,060
OPERATING EXPENSES:					
Personnel services	24,055,100	13,818,543	1,094,951	38,968,594	2,877,517
Supplies	4,747,238	1,410,213	574,957	6,732,408	3,736,013
Professional services	4,967,078	1,271,145	1,840,554	8,078,777	19,716,530
Depreciation and amortization	14,891,135	2,931,723	834,357	18,657,215	478,767
Taxes	1,880,027	8,629	-	1,888,656	-
Other operating expenses	13,780,941	4,671,116	619,998	19,072,055	7,854,011
Total Operating Expenses	64,321,519	24,111,369	4,964,817	93,397,705	34,662,838
Operating Income (Loss)	27,040,196	(21,550,984)	1,736,110	7,225,322	(515,778)
NON-OPERATING REVENUES (EXPENSES):					
Sales tax	-	19,668,306	-	19,668,306	-
Intergovernmental revenues	294,499	1,864,334	60,749	2,219,582	-
Interest and investment revenue	95,616	(376)	26,654	121,894	78,320
Rent	647,110	-	-	647,110	-
Other non-operating revenues	974,438	38,474	-	1,012,912	1,172,214
Gain (loss) on sale/retirement of assets	(31,378)	(6,667)	1,175	(36,870)	3,873
Sale of junk/salvage	5,605	-	-	5,605	-
Interest expense	(6,779,476)	-	(218,737)	(6,998,213)	-
Other non-operating expenses	(1,302)	(1,597,008)	-	(1,598,310)	-
Total Non-Operating Revenues (Expenses)	(4,794,888)	19,967,063	(130,159)	15,042,016	1,254,407
Income (Loss) Before Contributions and Transfers	22,245,308	(1,583,921)	1,605,951	22,267,338	738,629
Capital contributions	28,017,490	36,469	-	28,053,959	-
Transfers in	-	-	-	-	162,012
Transfers out	(4,900,968)	(303,593)	-	(5,204,561)	(50,004)
CHANGE IN NET POSITION	45,361,830	(1,851,045)	1,605,951	45,116,736	850,637
NET POSITION - BEGINNING	398,086,235	51,087,644	8,378,293	457,552,172	12,132,806
NET POSITION - ENDING	\$ 443,448,065	\$ 49,236,599	\$ 9,984,244	\$ 502,668,908	\$ 12,983,443

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

Increase in Net Position, per above	\$ 45,116,736
The net revenue (expense) of certain activities of internal service funds associated with business-type activities.	448,229
Change in Net Position, per Statement of Activities	<u>\$ 45,564,965</u>

The accompanying notes are an integral part of this statement.

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2017
(Page 1 of 2)**

	BUSINESS-TYPE ACTIVITIES				GOVERNMENTAL ACTIVITIES -
	WATER & SEWER UTILITY	TRANSIT	OTHER ENTERPRISE FUNDS	TOTAL	INTERNAL SERVICE FUNDS
CASH FLOWS FROM OPERATING ACTIVITIES:					
Receipts from customers and users	\$ 88,744,101	\$ 3,202,228	\$ 6,637,783	\$ 98,584,112	\$ 504,009
Receipts from interfund services provided	176,285	-	(64)	176,221	33,589,445
Payments to suppliers	(18,335,441)	(1,919,408)	(2,849,183)	(23,104,032)	(25,980,355)
Payments to employees	(24,494,688)	(14,265,891)	(1,119,123)	(39,879,702)	(3,101,821)
Payments for interfund services used	(6,786,114)	(5,331,124)	(163,104)	(12,280,342)	(440,899)
Claims paid	-	-	-	-	(4,675,407)
Other receipts (payments)	974,730	(1,542,570)	-	(567,840)	1,102,995
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	40,278,873	(19,856,765)	2,506,309	22,928,417	997,967
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:					
Sales tax received	-	19,279,623	-	19,279,623	-
Deposits with trustees	-	-	-	-	-
Receipts from non-capital grants	302,961	1,594,849	30,008	1,927,818	-
Interfund loans received	300,000	-	-	300,000	-
Interest received on interfund loans	12,789	-	-	12,789	-
Principal paid on interfund loans	-	-	(200,000)	(200,000)	-
Interest paid on interfund loans	-	-	(103,874)	(103,874)	-
Transfers to other funds	(4,900,968)	(303,593)	-	(5,204,561)	(50,004)
Transfers from other funds	-	-	-	-	125,000
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	(4,285,218)	20,570,879	(273,866)	16,011,795	74,996
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Principal paid on capital debt	(10,198,744)	-	(1,000,000)	(11,198,744)	-
Interest paid on capital debt	(7,501,502)	-	(120,000)	(7,621,502)	-
Principal paid on interfund loans	-	-	(300,000)	(300,000)	-
Interest paid on interfund loans	-	-	(30,710)	(30,710)	-
Receipts from capital grants	661,422	39,333	-	700,755	-
Proceeds from sale of capital assets	316,765	1,728	1,175	319,668	3,873
Capital contributions	231,125	-	-	231,125	37,012
Acquisition and construction of capital assets	(20,742,854)	(3,156,863)	(106,946)	(24,006,663)	(363,268)
NET CASH PROVIDED (USED) BY CAPITAL FINANCING ACTIVITIES	(37,233,788)	(3,115,802)	(1,556,481)	(41,906,071)	(322,383)
CASH FLOWS FROM INVESTING ACTIVITIES:					
Proceeds from sale of investments	-	1,429,356	-	1,429,356	-
Purchase of investments	(3,247,751)	-	(1,883,857)	(5,131,608)	(6,534,743)
Investment income	1,420,226	120,867	75,572	1,616,665	346,937
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	(1,827,525)	1,550,223	(1,808,285)	(2,085,587)	(6,187,806)
Net Increase (Decrease) in Cash and Cash Equivalents	(3,067,658)	(851,465)	(1,132,323)	(5,051,446)	(5,437,226)
Cash and Cash Equivalents, January 1	21,121,957	2,398,640	1,202,053	24,722,650	5,816,229
CASH AND CASH EQUIVALENTS, DECEMBER 31	\$ 18,054,299	\$ 1,547,175	\$ 69,730	\$ 19,671,204	\$ 379,003
Current Cash and Cash Equivalents	18,013,581	797,175	\$ 68,431	\$ 18,879,187	\$ 379,003
Restricted Cash and Cash Equivalents	40,718	750,000	1,299	792,017	-
CASH AND CASH EQUIVALENTS, DECEMBER 31	\$ 18,054,299	\$ 1,547,175	\$ 69,730	\$ 19,671,204	\$ 379,003

The accompanying notes are an integral part of this statement.

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2017
(Page 2 of 2)**

	BUSINESS-TYPE ACTIVITIES				GOVERNMENTAL ACTIVITIES -	
	WATER & SEWER UTILITY	TRANSIT	OTHER ENTERPRISE FUNDS	TOTAL	INTERNAL SERVICE FUNDS	
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET						
CASH PROVIDED (USED) BY OPERATING ACTIVITIES:						
Operating income (loss)	\$ 27,040,196	(21,550,984)	\$ 1,736,110	\$ 7,225,322	\$	(515,778)
Adjustments to Reconcile Operating Income to Net						
Cash Provided (Used) by Operating Activities:						
Depreciation and amortization	14,891,135	2,931,723	834,357	18,657,215		478,767
Other non-operating receipts	1,621,548	38,474	-	1,660,022		1,172,214
Other non-operating disbursements	-	(1,581,044)	-	(1,581,044)		-
GASB 68 pension expense adjustments	(564,148)	(511,508)	(30,098)	(1,105,754)		(193,990)
Change in Assets and Liabilities:						
(Increase) decrease in inventories	31,155	-	(3,655)	27,500		(363,452)
(Increase) decrease in receivables	(3,045,967)	(129,202)	(72,949)	(3,248,118)		(122,825)
(Increase) decrease in prepaid expenses	115,338	-	-	115,338		42,099
Increase (decrease) in accounts and other payables	82,349	113,104	25,948	221,401		512,387
Increase (decrease) in compensated absences	107,267	42,917	6,855	157,039		(11,455)
Increase (decrease) in other current liabilities	-	789,755	9,741	799,496		-
TOTAL ADJUSTMENTS	13,238,677	1,694,219	770,199	15,703,095		1,513,745
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 40,278,873	\$ (19,856,765)	\$ 2,506,309	\$ 22,928,417	\$	997,967
SCHEDULE OF NON-CASH CAPITAL AND RELATED FINANCING ACTIVITIES:						
Non-Cash Financing, Capital and Investing Activities:						
Capital assets contributed by other funds	\$ -	\$ 821,500	\$ -	\$ 821,500	\$	-
Capital assets contributed by private developers	27,233,110	-	-	27,233,110		-
Increase (decrease) in fair value of investments	(1,229,341)	(118,515)	(44,229)	(1,392,085)		(248,728)
Capital grants earned, not received	-	2,448	-	2,448		-
Operating grants earned, not received	-	640,843	47,454	688,297		-
TOTAL NON-CASH ACTIVITIES	\$ 26,003,769	\$ 1,346,276	\$ 3,225	\$ 27,353,270	\$	(248,728)

The accompanying notes are an integral part of this statement.

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
DECEMBER 31, 2017

	TRUST FUNDS	AGENCY FUNDS
ASSETS		
Cash and cash equivalents	\$ 141,291	\$ 184,383
Agency Bonds	46,694,673	-
Accounts receivable - net	-	17,778
Interest receivable	8,658	-
Other Prepayments	1,970	-
Total Current Assets	46,846,592	202,161
TOTAL ASSETS	46,846,592	202,161
LIABILITIES		
Accounts payable	3,229	-
Interfund Loans Payable	230,729	-
Other current liabilities	-	202,161
Total Current Liabilities	233,958	202,161
TOTAL LIABILITIES	233,958	202,161
NET POSITION		
Net Position restricted for pensions	16,159,204	-
Net Position restricted for post employment benefits	30,453,430	-
Total held in trust	\$ 46,612,634	\$ -

The accompanying notes are an integral part of this statement.

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2017**

	TRUST FUNDS
ADDITIONS:	
Contributions	
Employer	\$ 1,758,486
State	165,525
Total contributions	<u>1,924,011</u>
Investment income	
Interest	1,957,065
Net appreciation (depreciation) in fair value	<u>(1,231,376)</u>
Net investment income	<u>725,689</u>
TOTAL ADDITIONS	<u>2,649,700</u>
DEDUCTIONS:	
Benefits	3,073,398
Administrative expense	<u>68,038</u>
TOTAL DEDUCTIONS	<u>3,141,436</u>
CHANGE IN NET POSITION	
Pension benefits	346,728
Postemployment healthcare benefits	(838,464)
NET POSITION RESTRICTED FOR EMPLOYEES' PENSION BENEFITS	
Employees' pension benefits, January 1	15,812,476
NET POSITION RESTRICTED FOR POSTEMPLOYMENT HEALTHCARE BENEFITS	
Postemployment healthcare benefits, January 1	31,291,894
NET POSITION - ENDING	<u>\$ 46,612,634</u>

The accompanying notes are an integral part of this statement.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. REPORTING ENTITY

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

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

Also included are other organizations for which the nature and significance of their relationship with the City of Everett are such that exclusion would cause the City's financial statements to be misleading or incomplete. The City of Everett is financially accountable for other entities that are considered component units if: (1) it appoints a voting majority of the governing body and a) it is able to impose its will on the organization or b) there is a potential for the organization to provide specific financial benefits to or impose specific financial burdens on the City, or (2) it is the sole corporate member of a not-for-profit corporation.

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

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

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

The entire IDC's governing body is comprised of City council members and the mayor, who serves ex officio. As a result, the City is the sole corporate member of a not-for-profit corporation. The IDC's account balances and transactions are included in the City's financial statements as a special revenue fund. The transactions, if any, are minimal; therefore, separate financial statements have not been issued.

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

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

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

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

In October 2014, the City issued Limited Tax General Obligation (LTGO) Refunding Bonds, a portion of which was used to refund the 2007 Variable Rate Project Revenue Bonds issued by the PFD. The PFD portion is referred to as the 2014 PFD Refunding Bonds. The City is responsible for the debt service on the entire 2014 LTGO Refunding Bonds. The PFD agrees to reimburse the City the amount of principal and interest paid on the 2014 PFD Refunding Bonds. As of December 31, 2017, the outstanding 2014 PFD Refunding Bonds balance was \$28,397,100. As of December 31, 2017, the PFD had outstanding 2007 Fixed Rate Limited Sales Tax and Interlocal Revenue Bond debt of \$17,695,000. Payments for the PFD's 2007 debt are expected to be made from PFD tax revenues and net project revenues. Complete financial statements may be obtained at the PFD administrative offices at 2000 Hewitt Avenue, Suite 200, Everett, Washington 98201.

B. IMPLEMENTATION OF NEW ACCOUNTING PRINCIPLES

Effective January 1, 2017, the City adopted the provisions of the following GASB Pronouncements:

Statement No. 80, Blending Requirements for Certain Component Units – requires state and local governments to blend component units that are incorporated as a not-for-profit corporation in which the primary government is the sole corporate member.

Statement No. 81, Irrevocable Split-Interest Agreements – requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize asset, liabilities, and deferred inflows of resources at the inception of the agreement, or recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party if the government controls the present service capacity of the beneficial interest.

Statement No. 85, Omnibus 2017 – establishes accounting and reporting requirements for blending units, goodwill, fair value measurement and application, and postemployment benefits. The specific requirement for recognition and measurement of on-behalf payments for pensions was implemented in 2017.

C. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

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

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

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

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

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

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

The City reports the following major governmental funds:

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

The City reports the following major proprietary funds:

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

Additionally, the City reports the following fund types:

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

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

Amounts reported as program revenues include 1) charges to customers, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than program revenues. All taxes are considered general revenues.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Utilities Fund, Solid Waste Utility Fund, Transit Fund, Parking Garage Fund, Golf Fund, and the internal service funds are charges to customers for sales and services. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

Cash and Cash Equivalents

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

Investments – See Note 4.

Receivables

Taxes receivable consist of property taxes and related interest and penalties, electric taxes, telephone taxes, B&O taxes, natural gas use taxes, and sales taxes. Customer accounts receivable consist of amounts owed from private individuals or organizations for goods and services including amounts owed for which billings have not been prepared. Interest receivable consists of amounts earned on investments, notes, and contracts at the end of the year. Notes and contracts receivable consist of amounts loaned to private individuals or organizations primarily in conjunction with the Community Home Improvement Program or the Community Development Block Grant Program. Special assessments receivable, which are recorded when the special assessment is levied, consist of current and delinquent assessments and related interest and penalties.

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

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

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

Amounts Due to and from Other Governmental Units

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

Inventories and Prepayments

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

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

Restricted Assets and Liabilities

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

Restricted assets of governmental activities include the following:

Special assessments receivable	<u>\$ 102,232</u>
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Restricted assets of business-type activities include the following:

Revenue bond debt service accounts	\$ 2,917,186
Special assessments receivable	<u>2,520</u>
	<u>\$ 2,919,706</u>

Capital Assets and Depreciation - See Note 6.

Compensated Absences

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

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

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

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

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

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. This represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (as either an expense or expenditure) until that period. The City has two items that qualify for reporting in the statement of net position: deferred loss on refunding and deferred outflows related to pension. A deferred loss on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The deferred outflows related to pensions consist of contributions to the State of Washington pension plans from July 1 to December 31 of the current fiscal year, the difference between expected and actual experience, changes in assumptions, and changes in proportionate share. Changes in proportionate share are deferred and amortized over the average remaining expected service lives of all employees in the plans.

In addition to liabilities, the statement of net position and balance sheet report a separate section for deferred inflows of resources. This represents an acquisition of net position that applies to a future period(s) and that will not be recognized as an inflow of resources (revenue) until that period. The City has four items at the fund level that qualify for reporting in this category: (1) unavailable property taxes recorded as receivables, (2) unavailable special assessments recorded as non-current receivable, (3) unavailable interest revenue relating to loans, and (4) deferred

inflows related to pensions. Items (1) – (3) are accrued at the entity-wide level and are no longer deferred inflows of resources. At the entity-wide level, the only deferred inflow is related to pension.

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

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

Short-term Debt

Debt with a term of one year or less at the time of issue is considered short-term debt. The City did not issue short-term debt during 2017.

Long-term Debt

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

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

Other accrued liabilities

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

Fund Balances

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

The City considers restricted amounts to be spent when an expenditure is incurred for which both restricted and unrestricted fund balance are available. The City does not have a formal policy for the use of unrestricted fund

balance amounts; therefore, it considers committed amounts used first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for which amounts in any of unrestricted fund balance classifications could be used.

On February 17, 1993, City Council adopted Ordinance 1928-93, which established a Contingency Reserve Fund. Per the ordinance, funds in the Contingency Reserve Fund can only be expended upon consensus agreement between Administration and City Council. Such expenditures can only be used when extraordinary needs arise that require immediate budget attention. Examples include natural and man-made disasters, civic unrest, and severe economic downturns. The balance in the Contingency Reserve Fund at December 31, 2017 was \$4.4 million and is included in the unassigned fund balance of the General Fund. The City maintains a formal policy that fund balance in the General Fund be at least 20 percent of operating revenues.

Fund balances by classification for the year ended December 31, 2017 were as follows:

Fund Balances	General Fund	Capital Improvement Reserved Fund	Other Governmental Funds	Total Governmental Funds
Nonspendable:				
Long Term Loans	\$ 29,537,100	\$ 26,409	\$ -	\$ 29,563,509
Advances to Other Funds	6,549,168	-	-	6,549,168
Restricted for:				
Capital Projects	-	327,865	-	327,865
Tourism Advertising	-	-	590,018	590,018
Everett TV Equipments Replacement	-	-	2,336,065	2,336,065
Animal Shelter Operation	-	-	242,079	242,079
Streets Capital Constructions *	-	-	5,514,211	5,514,211
City Roads Safety & Improvements	-	-	949,667	949,667
Library Books	-	-	15,434	15,434
Library Misc. Operation	-	-	69,763	69,763
Capital Projects Debt Services *	-	-	224,339	224,339
Policing	-	-	9,225,910	9,225,910
Traffic Improvement Projects	-	-	5,576,193	5,576,193
CHIP Loans & Community Development	-	-	14,308,369	14,308,369
Committed to:				
1% for Arts Projects	233,838	-	-	233,838
Assigned to :				
Capital Projects	-	16,853,563	-	16,853,563
City Debt Service	-	10,996,548	20,980	11,017,528
Riverfront Capital Project	-	-	247,379	247,379
City Streets Improvements	-	-	2,807,898	2,807,898
Parks & Recreation Maintenance	-	-	331,618	331,618
Animal Shelter Operation	-	-	153,889	153,889
Library Books	-	-	44,165	44,165
Library Misc. Operation	-	-	199,634	199,634
EMS	-	-	1,369,315	1,369,315
Policing	-	-	30,792	30,792
Community Redevelopment	-	-	98,674	98,674
City Roads Safety & Improvements	-	-	540,377	540,377
Facility Construction Projects	-	-	212,255	212,255
Parks Capital Construction	-	-	168,135	168,135
Unassigned:	50,030,613	-	54,285	50,084,898
Total Fund Balances	<u>\$ 86,350,719</u>	<u>\$ 28,204,385</u>	<u>\$ 45,331,442</u>	<u>\$ 159,886,546</u>

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

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

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

Governmental balance sheets reconciliation

Capital assets not reported in total governmental funds:	
Cost of capital assets	\$508,625,940
Accumulated depreciation	<u>(164,974,106)</u>
Net adjustment to increase total fund balances of governmental funds to arrive at net position of governmental activities.	<u>\$ 343,651,834</u>
Long-term debt not reported in total governmental funds:	
Bonds payable	\$ (43,890,248)
Compensated absences accrued	(10,264,597)
Unamortized balance of bond premiums	(633,431)
Accrued interest payable	<u>(52,302)</u>
Net adjustment to reduce total fund balances of government funds to arrive at net position of governmental activities	<u>\$ (54,840,578)</u>
Internal service funds reported separately with business-type funds:	
Internal service funds - total fund equity	\$ 12,983,443
Amount allocated to internal balances - business-type activities	<u>(1,665,846)</u>
Net adjustment to increase total fund balances of governmental funds to arrive at net position of governmental activities.	<u>\$ 11,317,597</u>

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

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

Governmental revenues/expenditures reconciliation

The net effect of various miscellaneous transactions involving capital assets:	
Book value of disposed assets:	
Cost of government-type capital assets disposed	\$ 1,691,749
Accumulated depreciation of disposed assets	(1,576,786)
Refund received for deposit paid in 2016-refunded in 2017	681,648
Received an in-kind grant for capital assets	20,817
Assets purchased by in-kind grant	<u>(20,817)</u>
Net adjustment to increase (reduce) net change in fund balances-total governmental funds to arrive at change in net position of governmental activities	<u>\$ 796,611</u>
The amount by which depreciation exceeds capital outlays in the current period:	
Expenditures that are capitalized	\$ 13,904,128
Current depreciation expense	<u>(11,051,389)</u>
Net adjustment to increase (reduce) net change in fund balance-total governmental funds to arrive at change in net position of governmental activities	<u>\$ 2,852,739</u>
The net effect of the differences in the treatment of long-term debt and related items:	
Principal payments on long-term debt	\$ 2,329,385
Decrease (increase) in interest payable	3,229
Decrease (increase) in compensated absences liability	(53,107)
Record debt issue costs of prior year issue; not material to ending balance	(193,459)
Amortization of bond premium	<u>70,381</u>
Net adjustment to increase (reduce) net change in fund balances-total governmental funds to arrive at change in net position of governmental activities	<u>\$ 2,156,429</u>
The net revenue (expense) of certain activities of internal service funds:	
Interest revenue allocated from internal service funds to governmental activities	\$ 49,274
Net expense allocated from internal service funds to governmental activities	237,255
Interfund transfers out	<u>115,880</u>
Net adjustment to reduce net change in fund balances-total governmental funds to arrive at change in net position of governmental activities	<u>\$ 402,409</u>

NOTE 3 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budget

Scope of Budget

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

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

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

Amending the Budget

The Mayor is authorized to transfer appropriations between programs within any fund; however, any revisions that alter the total expenditures of a fund must be approved by the City Council. When City Council determines that it is in the best interest of the City to increase or decrease the appropriation for a particular fund, it may do so by ordinance approved by one more than the majority after holding public hearings. The budget was amended by ordinance four times in 2017.

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

Compliance

As of December 31, 2017, the following funds reported deficits in fund balance or net position:

Fund 440 – Golf Fund had a deficit net position of \$4,597,927. To eliminate the deficit, the City continues elements of its business plan to increase revenue and decrease expenses.

Fund 507 – Telecommunications Fund had a deficit net position of \$691,120. The deficit was due to applying the accounting principle changes of GASB 68. Future increase of interfund assessments should help in eliminating this deficit.

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

NOTE 4 – DEPOSITS AND INVESTMENTS

Deposits

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

Investments

All investments of the City's funds are obligations of the U.S. Government, U.S. agency issues, the State of Washington Local Government Investment Pool, or deposits with Washington State Banks that are approved by the Washington State Protection Commission (PDPC) to accept public funds.

U.S. Agency and U.S. Treasury Securities classified in Level 2 are valued by the City's custodian, Wells Fargo, using quoted prices for similar securities and interest rates.

The City is a participant in the Local Government Investment Pool, The LGIP was created by Chapter 294, Laws of 1986 and began operations in July 1986. The LGIP is a short-term investment pool of the state of Washington, available to eligible governmental entities as defined by Revised Code of Washington (RCW) 43.250.020. Participation is voluntary. The LGIP is managed and operated by the Office of the State Treasurer (OST). The State Finance Committee is the administrator of the statute that created the pool and adopts appropriate rules. The State Treasurer is responsible for establishing the investment policy for the pool and reviews the policy annually. Any proposed changes are reviewed by the LGIP Advisory Committee. The terms of the policy are designed to ensure the safety and liquidity of the funds deposited in the LGIP. The State Treasurer and designated investment officers adhere to all restrictions on the investment of funds established by law and policy. The LGIP portfolio is invested in a manner that meets the maturity, quality, diversification and liquidity requirements set forth by GASB for external investment pools that elect to measure, for financial reporting purposes, investments at amortized cost. The funds are limited to high quality obligations with regulated maximum and average maturities, the effect of which is to minimize both market and credit risk. The LGIP does not have any legally binding guarantees of share value.

The LGIP transacts with its participants at a stable net asset value per share of \$1.00, the same method used for reporting. Participants may contribute and withdraw funds on a daily basis. The LGIP does not impose liquidity fees or redemption gates on participant withdrawals.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of debt instruments will adversely affect the fair value of an investment. To mitigate the effect of interest rate risk, the portfolio is invested in high quality, highly liquid obligations with limited maximum and average maturities. The City's Investment Policy limits the effective duration of the portfolio to a maximum of five, and the maximum maturity of any investment to 10 years.

The LGIP is a short-term investment pool. To provide for safety and liquidity of funds, the LGIP consists of only those high quality, short-term instruments authorized by statute. Investments are restricted to fixed rate securities that mature in 397 days or less, except for securities utilized in repurchase agreements and U.S. government and supranational floating or variable rate securities which may have a maximum maturity of 762 days, provided they have reset dates within one year and that on any reset date can reasonably be expected to have a fair value that approximates their amortized cost. The portfolio's weighted average maturity (WAM) will not exceed 60 days, and a weighted average life (WAL) will not exceed 120 days.

The following schedule presents the investments and related maturities as of fiscal year end.

Investment Type	Fair Value	Maturity (in Years)		
		Less than 1	1 - 5	Over 5 years
U.S. Agency Securities - Primary Gov't	\$ 200,062,834	\$ 67,300,256	\$ 132,762,578	-
U.S. Agency Securities - Pension	43,348,479	2,546,552	23,654,521	17,147,405
Total Investments	\$ 243,411,313	\$ 69,846,808	\$ 156,417,099	\$ 17,147,405

Deposits	Amortized Cost	Maturity (in Years)		
		Less than 1	1 - 5	Over 5 years
LGIP	\$ 31,290,104	\$ 31,290,104		
RBC Insured Deposit	76,769	76,769		
Total Deposits	\$ 31,366,873	\$ 31,366,873		

Total	\$ 274,778,186	\$ 101,213,682	\$ 156,417,099	\$ 17,147,405
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Fair Value Hierarchy

Securities classified as Level 1 in the fair value hierarchy are valued using prices quoted in active markets for identical securities, Level 2 securities are valued using observable inputs, and Level 3 securities are valued using unobservable inputs. U.S. Agency and U.S. Treasury Securities classified in Level 2 are valued by the City's custodian, Wells Fargo, using quoted prices for similar securities and interest rates. Well's Fargo's primary vendor source is Interactive Data (IDC). The pricing methodology includes obtaining feeds from a number of live data sources, including active market makers and inter-dealer brokers. Sources are reviewed based on their historical accuracy for individual issues and maturity ranges. Secondary vendor sources include Bloomberg, Pricing Direct, and Thomson Reuters. The level of fair value measurement is based on the lowest level of significant input for the security type in its entirety. There are no Level 1 or Level 3 security classifications to report.

LGIP investments are stated at amortized cost which approximates fair value. For bank deposits and repurchase agreements, the cost-based measure equals their carrying amount. Monthly, the fair value net asset value per share is calculated and compared to the amortized cost net asset value per share to verify that the LGIP's shadow price does not deviate by more than one half of 1 percent from the amortized cost of the portfolio.

		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by Fair Value	Total			
Agencies				
FFCB	\$ 63,338,833	\$ -	\$ 63,338,833	\$ -
FHLB	39,687,901	-	39,687,901	-
FHLMC	49,614,830	-	49,614,830	-
FNMA	47,421,270	-	47,421,270	-
Total - Primary Gov't	\$ 200,062,834	\$ -	\$ 200,062,834	\$ -
Agencies				
FFCB	\$ 10,858,965	\$ -	\$ 10,858,965	\$ -
FHLB	10,842,824	-	10,842,824	-
FHLMC	10,801,936	-	10,801,936	-
FNMA	10,844,754	-	10,844,754	-
Total - Pension	\$ 43,348,479	\$ -	\$ 43,348,479	\$ -
Deposits				
LGIP	\$ 31,290,104			
RBC Insured Deposit	\$ 76,769			
Total Deposits	\$ 31,366,873			
Total By Fair Value	\$ 274,778,186			

Credit Risk

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

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The City mitigates concentration of credit risk by limiting the purchase of securities of any one issuer, with the exception of U.S. Treasury and the Local Government Investment Pool as follows:

Issuer Type	Maximum Holdings Portfolio	Maximum Holdings Issuer
U.S. Treasury Notes, Bonds or Certificates	100%	N/A
Government Sponsored Enterprises	90%	40%
Investment Deposits	20%	10%
Certificates of Deposit	20%	10%
Bankers Acceptances	20%	5%
Repurchase Agreements	20%	10%
Washington State Bonds	20%	N/A
Local Government Bonds	20%	5%
LGIP	100%	N/A
Commercial Paper	10%	5%

At December 31, 2017, U.S. Agencies comprised 88 percent of the City's portfolio, including Federal Farm Credit Bureau (27 percent), Federal Home Loan Bank (18 percent), Federal Home Loan Mortgage Corporation (22 percent), and Federal National Mortgage Association (21 percent). In addition, 12 percent of the portfolio was in the LGIP.

Custodial Credit Risk

Custodial credit risk is the risk that, in the event a depository institution or counterparty fails, the City will not be able to recover the value of its deposits, investments or collateral securities that are in the possession of an outside party. Investments held as deposits in financial institutions are insured by the Federal Deposit Insurance Corporation and/or collateralized.

Collateral protection is administered by the Washington Public Deposit Protection Commission (PDPC). The PDPC, created by the Legislature per Chapter 39.58 of the Revised Code of Washington, constitutes a multiple financial institution collateral pool comprised of securities pledged to secure uninsured public deposits. Pledged securities are held by the PDPC's agent in the name of the collateral pool.

The City's investment policy requires that securities purchased be held by a custodian, acting as an independent third party, in its safekeeping or trust department.

Interest Allocation

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

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

NOTE 5 - PROPERTY TAXES

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

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

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

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

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

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

For 2017, the City levied the following property taxes on an assessed value of \$14,864,164,291. The special levies identified in the table were approved by the voters and are not subject to the limitations listed above.

PURPOSE OF LEVY	LEVY RATE PER \$1,000	TOTAL LEVY AMOUNT
General government	\$2.438	\$ 36,241,947
Emergency medical services	0.445	6,612,353
TOTAL CITY LEVY	\$2.883	\$ 42,854,301

NOTE 6 - CAPITAL ASSETS AND DEPRECIATION

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

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

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

GOVERNMENTAL ACTIVITIES	BEGINNING BALANCE 01/01/17	ADDITIONS	TRANSFERS	DELETIONS	ENDING BALANCE 12/31/17
Capital assets, not being depreciated or amortized:					
Land	\$ 60,409,823	\$ -	\$ -	\$ -	\$ 60,409,823
Construction in progress *	3,494,890	6,863,376	(7,322,471)	-	3,035,795
Total capital assets, not being depreciated or amortized	63,904,713	6,863,376	(7,322,471)	-	63,445,618
Capital assets, being depreciated or amortized:					
Buildings	102,844,581	-	89,931	-	102,934,512
Improvements other than buildings	41,502,858	-	265,652	(1)	41,768,509
Infrastructure	259,527,129	5,132,930	6,966,888	(529,075)	271,097,872
Machinery and equipment	32,565,329	1,788,474	(9,981)	(1,251,404)	33,092,418
Intangibles	1,257,043	33,306	-	-	1,290,349
Total capital assets being depreciated or amortized	437,696,940	6,954,710	7,312,490	(1,780,480)	450,183,660
Less accumulated depreciation or amortization for:					
Buildings	(40,022,332)	(2,451,748)	-	-	(42,474,080)
Improvements other than buildings	(22,184,707)	(1,470,535)	-	-	(23,655,242)
Infrastructure	(74,886,619)	(5,685,270)	-	529,075	(80,042,814)
Machinery and equipment	(20,617,254)	(1,805,081)	9,981	1,136,440	(21,275,914)
Intangibles	(912,921)	(117,522)	-	-	(1,030,443)
Total accumulated depreciation and amortization	(158,623,833)	(11,530,156)	9,981	1,665,515	(168,478,493)
Total capital assets being depreciated or amortized, net	279,073,107	(4,575,446)	7,322,471	(114,965)	281,705,167
Governmental activities capital assets, net	\$ 342,977,820	\$ 2,287,930	\$ -	\$ (114,965)	\$ 345,150,785

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

BUSINESS-TYPE ACTIVITIES	BEGINNING BALANCE 01/01/17	ADDITIONS	TRANSFERS	DELETIONS	ENDING BALANCE 12/31/17
Capital assets, not being depreciated:					
Land	\$ 34,535,756	\$ 3,125,570	\$ 184,450	\$ -	\$ 37,845,776
Construction in progress *	30,721,381	20,437,522	(30,908,779)	(108,430)	20,141,694
Total capital assets, not being depreciated	65,257,137	23,563,092	(30,724,329)	(108,430)	57,987,470
Capital assets, being depreciated					
Buildings	226,350,838	-	5,738,201	-	232,089,039
Improvements other than buildings	542,219,756	27,357,975	24,986,128	-	594,563,859
Infrastructure	1,917,502	-	-	-	1,917,502
Machinery and equipment	40,305,143	3,770,036	9,981	(2,101,412)	41,983,747
Intangibles	16,201,205	-	-	-	16,201,205
Total capital assets being depreciated	826,994,444	31,128,011	30,734,310	(2,101,412)	886,755,352
Less accumulated depreciation for:					
Buildings	(75,513,066)	(4,569,774)	-	-	(80,082,841)
Improvements other than buildings	(184,737,508)	(11,341,292)	-	-	(196,078,797)
Infrastructure	(479,375)	(95,875)	-	-	(575,250)
Machinery and equipment	(25,544,587)	(2,379,211)	(9,981)	1,748,954	(26,184,826)
Intangibles	(6,492,433)	(271,064)	-	-	(6,763,497)
Total accumulated depreciation	(292,766,969)	(18,657,216)	(9,981)	1,748,954	(309,685,211)
Total assets being depreciated, net	534,227,475	12,470,795	30,724,329	(352,458)	577,070,141
Business-type activities capital assets, net	\$ 599,484,612	\$ 36,033,887	\$ -	\$ (460,888)	\$ 635,057,611

Depreciation

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

	Estimated Service Life
Buildings	25-50 Years
Improvements Other Than Buildings	5-50 Years
Infrastructure	10-100 Years
Machinery and Equipment	2-20 Years
Intangibles	2-20 Years

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

GOVERNMENTAL ACTIVITIES	
General government services	\$ 569,767
Police	742,841
Fire	766,451
Engineering & construction services	69,201
Transportation	5,325,789
Community services	359,218
Library	813,968
Culture and recreation	2,424,783
Judicial	173,655
Social Services	-
Internal service allocated to business-type activities	284,483
Total depreciation - governmental activities	\$ 11,530,156
BUSINESS-TYPE ACTIVITIES	
Water	\$ 6,731,753
Sewer	8,292,958
Solid waste	274,808
Parking	12,503
Transit	3,082,630
Golf	547,046
Internal service allocated to business-type activities	(284,483)
Total depreciation - business-type activities	\$ 18,657,215
Total depreciation - all activities	\$ 30,187,371

NOTE 7 - PENSION PLANS

The following table represents the aggregate pension amounts for all plans subject to the requirements of the [GASB Statement 68, Accounting and Financial Reporting for Pensions](#) for the year 2017:

Aggregate Pension Amounts – All Plans	
Pension liabilities	(\$ 43,124,162)
Pension assets	\$ 24,746,989
Deferred outflows of resources	\$ 9,323,402
Deferred inflows of resources	(\$ 14,268,696)
Pension expense/expenditures	\$ 2,874,957

State Sponsored Pension Plans

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

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

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

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

Public Employees' Retirement System (PERS)

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

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

Contributions

The **PERS Plan 1** member contribution rate is established by State statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2017 were as follows:

PERS Plan 1		
Actual Contribution Rates:	Employer	Employee*
January - June 2017:		
PERS Plan 1	6.23%	6.00%

PERS Plan 1 UAAL	4.77%	6.00%
Administrative Fee	0.18%	
Total	11.18%	6.00%
July - December 2017:		
PERS Plan 1	7.49%	6.00%
PERS Plan 1 UAAL	5.03%	
Administrative Fee	0.18%	
Total	12.70%	6.00%

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

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 2017 were as follows:

PERS Plan 2/3		
Actual Contribution Rates:	Employer 2/3	Employee 2*
January – June 2017:		
PERS Plan 2/3	6.23%	6.12%
PERS Plan 1 UAAL	4.77%	
Administrative Fee	0.18%	
Employee PERS Plan 3		varies
Total	11.18%	6.12%
July – December 2017:		
PERS Plan 2/3	7.49%	7.38%
PERS Plan 1 UAAL	5.03%	

Administrative Fee	0.18%	
Employee PERS Plan 3		varies
Total	12.70%	7.38%

* For employees participating in JBM, the contribution rate was 15.30% for January – June 2017 and 18.45% for July - December 2017.

The City's actual PERS plan contributions were \$3,213,942 to PERS Plan 1 and \$3,954,024 to PERS Plan 2/3 for the year ended December 31, 2017.

Public Safety Employees' Retirement System (PSERS)

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

- Have completed a certified criminal justice training course with authority to arrest, conduct criminal investigations, enforce the criminal laws of Washington, and carry a firearm as part of the job; or
- Have primary responsibility to ensure the custody and security of incarcerated or probationary individuals; or
- Function as a limited authority Washington peace officer, as defined in [RCW 10.93.020](#); or
- Have primary responsibility to supervise eligible members who meet the above criteria.

PSERS membership includes:

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

PSERS covered employers include:

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

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

Contributions

The **PSERS Plan 2** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2. The Plan 2 employer rates include components to address the PERS Plan 1 unfunded actuarial accrued liability and administrative expense currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates. In addition to the regular change in contribution rates on July 1, 2017, PSERS contribution rates changed again September 1, 2017 due to HB 1709, which allows PERS members meeting specific criteria to transfer service credit into PSERS as long as they and their employer pay the difference between the PERS and PSERS contribution rates.

The PSERS Plan 2 required contribution rates (expressed as a percentage of current-year covered payroll) for 2017 were as follows:

PSERS Plan 2		
Actual Contribution Rates:	Employer	Employee
January – June 2017:		
PSERS Plan 2	6.59%	6.59%
PERS Plan 1 UAAL	4.77%	
Administrative Fee	0.18%	
Total	11.54%	6.59%
July – August 2017:		
PSERS Plan 2	6.73%	6.73%
PERS Plan 1 UAAL	5.03%	
Administrative Fee	0.18%	
Total	11.94%	6.73%
September – December 2017		
PSERS Plan 2	6.73%	6.74%
PERS Plan 1 UAAL	5.03%	
Administrative Fee	0.18%	
Total	11.94%	6.74%

The City's actual plan contributions were \$49,976 to PSERS Plan 2 for the year ended December 31, 2017.

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 I had no required employer or employee contributions for fiscal year 2017. 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 2017 were as follows:

LEOFF Plan 2		
Actual Contribution Rates:	Employer	Employee
January – June 2017:		
State and local governments	5.05%	8.41%
Administrative Fee	0.18%	
Total	5.23%	8.41%
July – December 2017:		
State and local governments	5.25%	8.75%
Administrative Fee	0.18%	
Total	5.43%	8.75%

The City's actual contributions to the plan were \$2,214,892 for the year ended December 31, 2017.

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, 2017, the state contributed \$62,155,262 to LEOFF Plan 2. The amount recognized by the City as its proportionate share of this amount is \$1,335,217.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2017 with a valuation date of June 30, 2016. 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 and the 2015 Economic Experience Study.

Additional assumptions for subsequent events and law changes are current as of the 2016 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2017. Plan liabilities were rolled forward from June 30, 2016, to June 30, 2017, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- **Inflation:** 3.0% 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 changes in methods and assumptions since the last valuation.

- For all plans except LEOFF Plan 1, how terminated and vested member benefits are valued was corrected.
- How the basic minimum COLA in PERS Plan 1 is valued for legal order payees was improved.
- For all plans, the average expected remaining service lives calculation was revised.

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 and PSERS 2 employers, whose rates include a component for the PERS 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. In selecting this assumption, the Office of the State Actuary (OSA) reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered capital market assumptions and simulated expected investment returns provided by the Washington State Investment Board (WSIB). The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns over various time horizons.

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, 2017, 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%	4.90%
Real Estate	15%	5.80%
Global Equity	37%	6.30%
Private Equity	23%	9.30%
	100%	

Sensitivity of the Net Pension Liability/(Asset)

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

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
PERS 1	\$ 28,036,039	\$ 23,014,482	\$ 18,664,739
PERS 2/3	\$ 54,066,149	\$ 20,068,318	(\$ 7,787,862)
PSERS 2	\$ 277,726	\$ 41,362	(\$ 143,962)
LEOFF 1	(\$ 4,944,515)	(\$ 6,665,876)	(\$ 8,144,132)

LEOFF 2	\$ 3,912,726	(\$18,081,113)	(\$ 36,000,774)
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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, 2017, the City reported a total pension liability of \$43,124,162 and pension assets of \$24,746,989 for its proportionate share of the net pension liabilities as follows:

	Liability (or Asset)
PERS 1	\$ 23,014,482
PERS 2/3	\$ 20,068,318
PSERS 2	\$ 41,362
LEOFF 1	(\$ 6,665,876)
LEOFF 2	(\$ 18,081,113)

The amount of the asset reported above for LEOFF Plans 1 and 2 reflects a reduction for State pension support provided to the city. The amount recognized by the City as its proportionate share of the net pension asset, the related State support, and the total portion of the net pension asset that was associated with the City were as follows:

	LEOFF 1 Asset	LEOFF 2 Asset
Employer's proportionate share	\$ 6,665,876	\$ 18,081,113
State's proportionate share of the net pension asset associated with the employer	\$ 45,087,820	\$ 11,728,880
TOTAL	\$ 51,753,696	\$ 29,809,993

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

	Proportionate Share 6/30/16	Proportionate Share 6/30/17	Change in Proportion
PERS 1	0.509161%	0.485018%	(0.024143%)
PERS 2/3	0.597904%	0.577585%	(0.020319%)
PSERS 2	0.218027%	0.211104%	(0.006923%)
LEOFF 1	0.434225%	0.439348%	0.005123%
LEOFF 2	1.307804%	1.302978%	(0.004826%)

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 2017. Historical data was obtained from a 2011 study by the Office of the State Actuary (OSA). In fiscal year 2017, 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 2017, the state of Washington contributed 39.35 percent of LEOFF 2 employer contributions pursuant to [RCW 41.26.725](#) and all other employers contributed the remaining 60.65 percent of employer contributions.

The collective net pension liability (asset) was measured as of June 30, 2017, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2016, with update procedures used to roll forward the total pension liability to the measurement date.

Pension Expense

For the year ended December 31, 2017, the City recognized pension expense as follows:

	Pension Expense
PERS 1	\$ 409,623
PERS 2/3	\$ 2,750,171
PSERS 2	\$ 57,686
LEOFF 1	(\$ 1,117,951)
LEOFF 2	\$ 775,428
TOTAL	\$ 2,874,957

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Total	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 2,852,556	(\$ 1,348,614)
Net difference between projected and actual investment earnings on pension plan investments	\$	(\$ 10,916,339)
Changes of assumptions	\$ 235,287	\$
Changes in proportion and differences between contributions and proportionate share of contributions	\$ 1,411,339	(\$ 2,003,750)
Contributions subsequent to the measurement date	\$ 4,824,220	\$
TOTAL	\$ 9,323,402	(\$ 14,268,696)

PERS 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$	\$
Net difference between projected and actual investment earnings on pension plan investments	\$	(\$ 858,836)
Changes of assumptions	\$	\$
Changes in proportion and differences between contributions and proportionate share of contributions	\$	\$
Contributions subsequent to the measurement date	\$ 1,574,711	\$
TOTAL	\$ 1,574,711	(\$ 858,836)

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 2,033,394	(\$ 660,012)
Net difference between projected and actual investment earnings on pension plan investments	\$	(\$ 5,349,731)
Changes of assumptions	\$ 213,164	\$
Changes in proportion and differences between contributions and proportionate share of contributions	\$ 774,449	(\$ 1,264,518)
Contributions subsequent to the measurement date	\$ 2,145,270	\$
TOTAL	\$ 5,166,277	(\$ 7,274,261)

PSERS 2	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 24,463	(\$ 2,939)
Net difference between projected and actual investment earnings on pension plan investments	\$	(\$ 29,010)
Changes of assumptions	\$ 350	\$
Changes in proportion and differences between contributions and proportionate share of contributions	\$ 472	(\$ 2,105)
Contributions subsequent to the measurement date	\$ 26,334	\$
TOTAL	\$ 51,619	(\$ 34,054)

LEOFF 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$	\$
Net difference between projected and actual investment earnings on pension plan investments	\$	(\$ 619,415)
Changes of assumptions	\$	\$
Changes in proportion and differences between contributions and proportionate share of contributions	\$	\$
Contributions subsequent to the measurement date	\$	\$
TOTAL	\$	(\$ 619,415)
LEOFF 2	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 794,699	(\$ 685,666)
Net difference between projected and actual investment earnings on pension plan investments	\$	(\$ 4,059,337)
Changes of assumptions	\$ 21,773	\$
Changes in proportion and differences between contributions and proportionate share of contributions	\$ 636,418	(\$ 737,127)
Contributions subsequent to the measurement date	\$ 1,077,905	\$
TOTAL	\$ 2,530,795	(\$ 5,482,130)

Deferred outflows of resources related to pensions resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2018. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Deferred Outflows					
Contribution Subsequent to Measurement Date					
	PERS1	PERS 2/3	PSERS 2	LEOFF 1	LEOFF 2
2018		\$ 352,022	\$ 99		\$ 190,936
2019		\$ 352,022	\$ 99		\$ 190,936
2020		\$ 70,405	\$ 99		\$ 190,936
2021			\$ 99		\$ 41,362
2022			\$ 76		\$ 3,972
Thereafter					\$ 18,276
Total		\$ 774,449	\$ 472		\$ 636,418

Deferred Inflows					
Contribution Subsequent to Measurement Date					
	PERS1	PERS 2/3	PSERS 2	LEOFF 1	LEOFF 2
2018		\$ 487,746	\$ 329		\$ 184,282
2019		\$ 266,322	\$ 329		\$ 184,282
2020		\$ 118,709	\$ 329		\$ 184,282
2021		\$ 118,709	\$ 327		\$ 184,281
2022		\$ 118,709	\$ 106		
Thereafter		\$ 154,323	\$ 685		
Total		\$1,264,518	\$ 2,105		\$ 737,127

FIRE PENSION FUND / POLICE PENSION FUND

The following table represents the aggregate pension amounts for all plans subject to the requirements of GASB Statement 68 for the year 2017:

Aggregate Pension Amounts - All Plans	Total
Pension liabilities	\$ 38,587
Pension assets	\$ 140,900
Deferred outflows of resources	\$ 516,939
Deferred inflows of resources	\$ -
Pension expense/expenditures	\$ 5,129,587

Plan Description

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

The Fire Pension Fund is administered by a fire pension board comprised of the mayor or a designated representative who shall be an elected official of the City, who shall be the chairperson of the board, the City council finance committee chairperson, the City clerk, and two regularly employed or retired fire fighters elected by secret ballot of the employed and retired fire fighters.

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

Membership of the Plans consisted of the following as of December 31, 2017:

- Retirees and beneficiaries of deceased retirees retiring prior to March 1, 1970 currently receiving full pension benefits from the Fire and Police Pension Fund number 3 and 1, respectively.
- Retirees and beneficiaries of deceased retirees retiring on or after March 1, 1970 currently receiving benefits in excess of what LEOFF provides from the Fire and Police Pension Funds number 80 and 41, respectively.

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

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

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Investments

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

Concentrations

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

Agencies	Fire Pension		Police Pension	
FFCB	7,223,206	25%	3,578,725	25%
FHLB	7,295,494	25%	3,549,251	25%
FHLMC	7,286,603	25%	3,572,352	25%
FNMA	7,264,464	25%	3,578,356	25%
Total Investments	29,069,767	100%	14,278,684	100%

Rate of return

For the year ended December 31, 2017, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 1.87% for the Fire Pension Fund and 1.84% for the Police Pension Fund. The money-weighted rate of return expresses investment performance, net of investment expenses, adjusted for the changing amounts actually invested.

Net Pension Liability

	Fire Pension	Police Pension
Total Pension Liability	\$ 10,569,758	\$ 5,487,402
Plan Fiduciary Net Position	10,530,901	5,628,302
Net Pension Liability (Asset)	\$ 38,857	\$ (140,900)
Plan fiduciary net position as a percentage of the total pension liability	100%	103%

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

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of January 1, 2017, using the following actuarial assumptions, applied to all periods included in the measurement:

Salary increases	3.00%
Investment rate of return (discount rate)	3.75%
Postretirement benefit increase	
1. Related to salaries	3.00%
2. Related to CPI	2.25%

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

The actuarial assumptions used in the valuation include:

- Valuation date of January 1, 2017
- Update procedures were used to roll forward the total pension liability to the pension plan's fiscal year-end
- Actuarial value of assets equal to market value
- Closed 30 year amortization period of the unfunded obligation beginning January 1, 2000
- Entry Age Cost Method
- The investment return was determined by using moderate rate that conservatively reflects the returns expected to be achieved by the fund each year.

Discount Rate

The discount rate used to measure the total pension liability was 3.75%. The projection of cash flows used to determine the discount rate assumed that City's future annual contributions increase 2.25% each year. Based on this assumption, the pension plan's fiduciary net position is determined to be actuarially sufficient to fully fund the plan's obligations by the end of year 2030.

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

The following presents the net pension liability of the City, calculated using the discount rate of 3.75%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1% lower (2.75%) or 1% higher (4.75%) than the current rate:

City's net pension liability (asset)	1% Decrease (2.75%)	Current Discount Rate (3.75%)	1% Increase (4.75%)
Fire Pension	\$ 1,218,482	\$ 38,857	\$ (847,354)
Police Pension	\$ 435,799	\$ (140,900)	\$ (456,225)

Changes in the Net Pension Liability

	Fire Pension			Police Pension		
	Fire Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)	Police Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at 12/31/2016	\$ 7,142,382	\$ 10,601,445	\$ (3,459,063)	\$ 4,567,739	\$ 5,211,030	\$ (643,291)
Changes for the Year:						
Service Cost	-	-	-	-	-	-
Interest	407,400	-	407,400	214,500	-	214,500
Changes in benefit terms	-	-	-	-	-	-
Difference between expected and actual experience	21,179	-	21,179	29,951	-	29,951
Changes in assumptions	3,721,618	-	3,721,618	1,152,261	-	1,152,261
Contributions - employer	-	515,525	(515,525)	-	800,000	(800,000)
Contributions - employees	-	-	-	-	-	-
Projected Earning on Investments *	-	383,000	(383,000)	-	186,000	(186,000)
Difference between expected and actual earnings *	-	(246,048)	246,048	-	(91,479)	91,479
Benefit payment, including refunds of contributions	(722,821)	(722,821)	-	(477,049)	(477,049)	-
Administrative expense	-	(200)	200	-	(200)	200
Other changes	-	-	-	-	-	-
Net changes	3,427,376	(70,544)	3,497,920	919,663	417,272	502,391
Balance at 12/31/2017	\$ 10,569,758	\$ 10,530,901	\$ 38,857	\$ 5,487,402	\$ 5,628,302	\$ (140,900)

* These will be totalled and reported as "Net Investment Earnings"

At December 31, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Fire Pension		Police Pension	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$ -	\$ -	\$ -
Net difference between projected and actual investment earnings on pension plan investments	409,173	-	107,766	-
Changes of assumptions	-	-	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	-	-	-	-
Contributions subsequent to the measurement date	-	-	-	-
Total	\$ 409,173	\$ -	\$ 107,766	\$ -

Deferred outflows of resources related to pensions resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2018. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	Fire Pension	Police Pension
2018	\$ 121,246	\$ 30,032
2019	\$ 121,246	\$ 30,032
2020	\$ 117,471	\$ 29,406
2021	\$ 49,210	\$ 18,296
Thereafter	\$ -	\$ -

NOTE 8 - OTHER POST EMPLOYMENT BENEFITS (OPEB)

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

Plan Descriptions

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

There are no active firefighter plan participants and 107 firefighter retirees currently receiving benefits. There are no active law enforcement plan participants and 79 law enforcement retirees currently receiving benefits.

Summary of Significant Accounting Policies

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

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

Funding Policy

Neither Fire nor Police retirees contribute towards the cost of his/her medical care. The primary sources of funding for both plans are property taxes levied by the City and interest earnings. In addition, the City receives a small Medicare D subsidy. In 2017, the City received \$100,278 in Medicare D reimbursements, which were split between the two funds. Administrative costs are financed through interest earnings.

The City's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over the next 14 years. The following table shows the components of the City's annual OPEB costs for the year, the amounts actually contributed to the plans, and the change in the City's net OPEB obligation.

	FIRE HEALTHCARE FUND	POLICE HEALTHCARE FUND
Annual Required Contribution (ARC)	\$ 2,305,267	\$ 1,729,166
Interest on Net OPEB Obligation	53,119	45,543
Actuarial Adjustment to ARC	(127,129)	(108,998)
Annual OPEB Cost (expense)	2,231,257	1,665,711
Contributions Made	227,969	380,517
Increase / (Decrease) in OPEB Obligation	2,003,288	1,285,194
Net OPEB Obligation at beginning of year	1,416,515	1,214,489
Net OPEB Obligation at end of year	<u>\$ 3,419,803</u>	<u>\$ 2,499,683</u>

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

The City's annual OPEB cost (AOC), the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2017 and the two preceding years were as follows:

FIRE HEALTHCARE FUND			
<u>Year Ending</u>	<u>Cost (AOC)</u>	<u>Percent of AOC Contributed by City</u>	<u>Net OPEB Obligation</u>
December 31, 2017	\$ 2,231,257	10.2%	\$ 3,419,803
December 31, 2016	\$ 493,232	265.3%	\$ 1,416,515
December 31, 2015	\$ 462,547	203.2%	\$ 2,231,654

POLICE HEALTHCARE FUND			
<u>Year Ending</u>	<u>Cost (AOC)</u>	<u>Percent of AOC Contributed by City</u>	<u>Net OPEB Obligation</u>
December 31, 2017	\$ 1,665,711	22.8%	\$ 2,499,683
December 31, 2016	\$ 857,928	40.8%	\$ 1,214,489
December 31, 2015	\$ 814,949	153.2%	\$ 706,920

Funded Status and Funding Progress

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

As of January 1, 2017 the Fire healthcare plan was 43.0% funded. The actuarial accrued liability for benefits was \$43.8 million, the actuarial value of assets was \$19.0 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$24.8 million. The city has no covered payroll (annual payroll of active employees covered by the plan), and therefore the ratio of the UAAL to the covered payroll is not applicable.

As of January 1, 2017 the Police Healthcare plan was 40.0% funded. The actuarial accrued liability for benefits was \$30.9 million, the actuarial value of assets was \$12.3 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$18.6 million. The city has no covered payroll (annual payroll of active employees covered by the plan), and therefore the ratio of the UAAL to the covered payroll is not applicable.

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

Actuarial Methods and Assumptions

An actuarial study is performed biennially for the Fire and Police OPEB funds. The most recent actuarial study of the Fire and Police OPEB Fund systems was computed by Milliman to determine the funded status as of January 1, 2017. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The actuarial cost method used in the valuation is the Entry Age Cost method. Under the Entry Age Cost method, actuarial normal cost is equal to zero and actuarial liability is equal to the present value of all future benefit expected to be paid, assuming a closed amortization period of 14 years and that the City's contribution will increase 2.25 percent each year.

The actuarial assumptions included (a) 3.75% annual investment return (b) 6.8% increase in medical inflation rate for pre-65 and 8.8% for post-65 in 2017, both groups grading down to 5.4% over 5 years, (c) 4.5% annual increase in long-term care inflation rate, and (d) life expectancy based on RP-2000 mortality tables with generational projection using 100% of Projection Scale BB, with ages set back one year for males and set forward one year for females.

Separate financial statements are not issued for the fire and police healthcare funds. The statement of fiduciary net position, and the statement of changes in fiduciary net position for the healthcare and pension funds are as follows:

STATEMENT OF FIDUCIARY NET POSITION DECEMBER 31, 2017

	637a POLICE PENSION FUND	637b POLICE HEALTHCARE FUND	638a FIRE PENSION FUND	638b FIRE HEALTHCARE FUND	TOTAL TRUST FUNDS
ASSETS					
Cash and cash equivalents	\$ 42,713	\$ 82,690	\$ 969	\$ 14,919	\$ 141,291
Agency Bonds	5,578,156	12,002,086	10,545,087	18,569,344	46,694,673
Accounts receivable - net	1,895	-	-	-	1,895
Interest receivable	6,687	1,971	-	-	8,658
TOTAL ASSETS	5,629,451	12,086,747	10,546,056	18,584,263	46,846,517
LIABILITIES					
Accounts payable	1,149	1,056	-	1,024	3,229
Interfund Loans Payable	-	-	15,154	215,500	230,654
TOTAL LIABILITIES	1,149	1,056	15,154	216,524	233,883
NET POSITION					
Restricted for pension benefits and other purposes	\$ 5,628,302	\$ 12,085,691	\$ 10,530,902	\$ 18,367,739	\$ 46,612,634

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR THE YEAR DECEMBER 31, 2017**

	637a POLICE PENSION FUND	637b POLICE HEALTHCARE FUND	638a FIRE PENSION FUND	638b FIRE HEALTHCARE FUND	TOTAL TRUST FUNDS
ADDITIONS:					
Contributions					
Employer	\$ 800,000	\$ 380,517	\$ 350,000	\$ 227,969	\$ 1,758,486
State	-	-	165,525	-	165,525
Total contributions	800,000.00	380,517	515,525	227,969	1,924,011
Investment income					
Interest	241,225	525,091	433,847	756,902	1,957,065
Net appreciation (depreciation) in fair value	(146,704)	(268,866)	(296,895)	(518,911)	(1,231,376)
Net investment income	94,521	256,225	136,952	237,991	725,689
TOTAL ADDITIONS	894,521	636,742	652,477	465,960	2,649,700
DEDUCTIONS:					
Benefits	477,049	816,438	722,821	1,057,090	3,073,398
Administrative expense	200	35,565	200	32,073	68,038
TOTAL DEDUCTIONS	477,249	852,003	723,021	1,089,163	3,141,436
CHANGE IN NET POSITION					
Pension benefits	417,272		(70,544)		346,728
Postemployment healthcare benefits		(215,261)		(623,203)	(838,464)
NET POSITION RESTRICTED FOR EMPLOYEES' PENSION BENEFITS					
Employees' pension benefits, January 1	5,211,030		10,601,446		15,812,476
NET POSITION RESTRICTED FOR POSTEMPLOYMENT HEALTHCARE BENEFITS					
Postemployment healthcare benefits, January 1		12,300,952		18,990,942	31,291,894
NET POSITION - ENDING	\$ 5,628,302	\$ 12,085,691	\$ 10,530,902	\$ 18,367,739	\$ 46,612,634

NOTE 9 - RISK MANAGEMENT

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

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

For the year ending 12/31/2017, the self-insured retention for general liability, auto liability (excluding transit), law enforcement liability, errors and omissions liability and employment practices liability was \$1,250,000 per occurrence. Workers' compensation is self-insured, and effective July 1, 2014, subject to a maximum retention of \$1,500,000 for police officer, fire fighter, and bus driver classifications per occurrence, and \$1,000,000 for all other classifications per occurrence. Unemployment compensation costs are self-insured by paying the actual benefit cost.

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

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

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

Claims liabilities are based on the estimated ultimate cost of settling the claim, including case reserves and incurred but not reported (IBNR) claims. Case reserves for general, auto (excluding Transit), employment and law

enforcement liabilities are estimated and projected by the Risk Management Division and the City's third-party administrator on a case-by-case basis using historical experience. Case reserves for Transit liability claims are estimated by the Transit pool, WSTIP. Case reserves for workers' compensation claims are estimated by the City's third-party administrator using statistical reserving formulas and historical experience. Claims liabilities include estimates for expenses related to adjusting/investigating and defending the claim or lawsuit.

At December 31, 2017, the estimated liability totaled \$8,941,758, consisting of \$4,433,267 for tort liability, \$4,399,890 for workers' compensation, and \$108,601 for unemployment compensation. These estimates are based on the provisions of Governmental Accounting Standards Board Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Claims liabilities are not discounted.

Changes in the funds' claims liability amounts in fiscal years 2016 and 2017 appear as follows:

	BALANCE AT BEGINNING OF YEAR	CLAIMS	CHANGES IN ESTIMATES	CLAIM PAYMENTS	BALANCE AT END OF YEAR
Tort Liability:					
2017	4,850,594	413,967	74,759	(906,053)	4,433,267
2016	5,920,505	343,984	(325,211)	(1,088,684)	4,850,594
Workers' Compensation:					
2017	3,599,785	1,491,055	1,508,066	(2,199,016)	4,399,890
2016	4,003,538	1,115,128	703,209	(2,222,090)	3,599,785
Unemployment Compensation:					
2017	90,149	125,309	60,221	(167,078)	108,601
2016	133,624	104,018	(8,803)	(138,690)	90,149

In 1995, the City created a self-insured health benefits program for its employees as a means to contain rising health benefit costs. Health Benefits Reserve Fund 508 was established to account for the disbursement of actual medical expenses, associated administrative costs, and reserves for this program. The City added a self-insured dental benefit program in 2016.

In order to mitigate its risk exposure the City holds individual and aggregate stop loss insurance, and maintains both claims fluctuation and liability reserves. The claims fluctuation reserve was \$2,587,463 at December 31, 2017. In addition, the liability reserve was \$2,587,463 at December 31, 2017, and is based on an analysis of the most recent twelve months of incurred claims with applied monthly completion factors, as required by Washington Administrative Code (WAC) 200-110-040(a).

Changes in the fund's claims liability in fiscal years 2016 and 2017 appear as follows:

	BALANCE AT BEGINNING OF YEAR	CLAIMS	CHANGES IN ESTIMATES	CLAIM PAYMENTS	BALANCE AT END OF YEAR
IBNR Liability:					
2017	2,626,787	16,185,750	(39,324)	(16,185,750)	2,587,463
2016	2,266,861	13,219,792	359,926	(13,219,792)	2,626,787

NOTE 10 - LONG-TERM DEBT

General Obligation Bonds

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

General obligation bonds outstanding at December 31, 2017, are as follows:

NAME OF ISSUE / PURPOSE	DATE OF ISSUE	DATE OF FINAL MATURITY	INTEREST RATE(S)	AMOUNT		
				ORIGINALLY ISSUED	REDEMPTIONS TO DATE	DEBT OUTSTANDING
Governmental Activities						
12 LTGO and Refunding Bonds - capital	10-04-12	12-01-26	2.00-4.00%	\$ 13,935,000	\$ 3,365,000	\$ 10,570,000
14 Floating Rate LTGO Bonds - capital	11-03-14	12-13-34	Variable	35,865,000	4,080,000	31,785,000
Total Governmental Activities				\$ 49,800,000	\$ 7,445,000	\$ 42,355,000
Business Activities						
10 LTGO Bonds - capital	03-26-10	12-01-19	1.00-4.25%	\$ 10,500,000	\$ 8,500,000	\$ 2,000,000
Total Business Activities				\$ 10,500,000	\$ 8,500,000	\$ 2,000,000
TOTAL GENERAL OBLIGATION BONDS				\$ 60,300,000	\$ 15,945,000	\$ 44,355,000

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

YEAR ENDING DECEMBER 31,	GOVERNMENTAL ACTIVITIES			BUSINESS-TYPE ACTIVITIES		
	PRINCIPAL	INTEREST	TOTAL REQUIREMENTS	PRINCIPAL	INTEREST	TOTAL REQUIREMENTS
2018	\$ 2,240,000	\$ 881,449	\$ 3,121,449	\$ 1,000,000	\$ 82,500	\$ 1,082,500
2019	2,430,000	834,787	3,264,787	1,000,000	42,500	1,042,500
2020	3,015,000	782,655	3,797,655	-	-	-
2021	3,475,000	704,731	4,179,731	-	-	-
2022	3,050,000	589,231	3,639,231	-	-	-
2023 - 2027	11,185,000	2,094,790	13,279,790	-	-	-
2028 - 2032	11,780,000	1,074,530	12,854,530	-	-	-
2033 - 2034	5,180,000	136,026	5,316,026	-	-	-
TOTAL	\$42,355,000	\$ 7,098,199	\$ 49,453,199	\$ 2,000,000	\$ 125,000	\$ 2,125,000

Interest on the 2014 Floating Rate Bonds is paid at a rate to be determined weekly using the rate equal to the weekly Securities Industry and Financial Markets Association Municipal Swap Index (SIFMA). The rate in effect at 12/31/17 was 1.80%.

Revenue Debt

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

The revenue bonds listed below will be repaid solely from water/sewer customer net revenues and are payable through 2040. The total principal and interest remaining to be paid on the bonds is \$241,805,867. Principal and interest expense for the current year and total customer net revenues were \$14,301,128 and \$43,537,924 respectively.

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

Revenue bonds outstanding at December 31, 2017 are as follows:

NAME OF ISSUE / PURPOSE	DATE OF ISSUE	DATE OF FINAL MATURITY	INTEREST RATE(S)	AMOUNT		REDEMPTIONS TO DATE	DEBT OUTSTANDING
				ORIGINALLY ISSUED			
09 Water/Sewer Revenue Bonds - capital	12-01-09	12-01-33	2.0-5.0%	\$ 40,000,000		\$ 38,715,000	\$ 1,285,000
11 Water/Sewer Revenue Bonds - capital	03-09-11	12-01-35	2.5-5.0%	51,000,000		45,920,000	5,080,000
13 Water/Sewer Revenue Bonds - capital	03-01-13	12-01-30	3.0-5.0%	62,145,000		9,840,000	52,305,000
15 Water/Sewer Revenue Bonds - capital	11-03-15	12-01-40	2.0-5.0%	50,525,000		2,850,000	47,675,000
16 Water/Sewer Revenue Bonds - capital	12-01-16	12-01-35	3.1-5.0%	68,050,000		-	68,050,000
TOTAL REVENUE BONDS				\$ 271,720,000		\$ 97,325,000	\$ 174,395,000

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

YEAR ENDING DECEMBER 31,	BUSINESS-TYPE ACTIVITIES		
	PRINCIPAL	INTEREST	TOTAL REQUIREMENTS
2018	\$ 7,375,000	\$ 6,905,851	\$ 14,280,851
2019	7,745,000	6,549,951	14,294,951
2020	8,135,000	6,162,701	14,297,701
2021	8,485,000	5,807,251	14,292,251
2022	8,855,000	5,435,201	14,290,201
2023 - 2027	50,210,000	21,254,214	71,464,214
2028 - 2032	50,305,000	11,042,907	61,347,907
2033 - 2037	24,795,000	3,651,844	28,446,844
2038- 2040	8,490,000	600,950	9,090,950
TOTAL	\$ 174,395,000	\$ 67,410,867	\$ 241,805,867

Other Long Term Debt

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

Other long-term debt outstanding, as of December 31, 2017, is presented below:

NAME OF ISSUE/PURPOSE	DATE OF ISSUE	DATE OF FINAL MATURITY	INTEREST RATE(S)	AMOUNT ORIGINALLY ISSUED	REDEMPTIONS TO DATE	DEBT OUTSTANDING
Governmental Activities						
Public Works Trust Fund Loan - Riverfront	04-28-99	07-01-18	2.00%	\$ 1,000,000	\$ 945,820	\$ 54,180
Public Works Trust Fund Loan - 112th Street	12-22-02	07-01-22	0.50%	1,000,000	724,507	275,493
Tax Exempt Installment Loan - LED Lighting	08-25-15	05-07-30	2.97%	1,362,903	157,328	1,205,575
Total Governmental Activities				\$ 3,362,903	\$ 1,827,655	\$ 1,535,248
Business Activities						
PWTFL Sewer Basement Flooding Reduction	07-01-01	07-01-21	1.00%	\$ 1,881,000	\$ 1,485,000	\$ 396,000
PWTFL Water Transmission Line	07-01-01	07-01-21	1.00%	4,252,792	3,358,842	893,950
PWTFL Cross-Town Effluent Pipeline	05-13-03	07-01-23	0.50%	5,490,000	3,751,500	1,738,500
PWTFL Water Transmission Lines #2-3	11-17-03	11-17-23	0.50%	841,671	572,189	269,482
PWTFL Treatment Plant Upgrade	04-25-05	07-01-25	0.50%	9,500,000	5,277,778	4,222,222
SRF Clearwell No. 2	03-03-06	10-01-25	1.50%	4,040,000	2,259,410	1,780,590
SRF Clearwell No. 2	12-21-07	10-01-26	1.50%	4,040,000	2,126,316	1,913,684
SRF Clearwell No. 2	03-03-08	10-01-27	1.50%	3,030,000	1,435,263	1,594,737
SRF Clearwell No. 2	08-22-08	10-01-28	1.50%	4,040,000	1,693,485	2,346,515
SRF Recovered Water Outfall	08-05-09	10-01-29	1.50%	1,376,473	507,074	869,398
SRF Bond Street CSO	10-13-10	10-31-31	2.90%	1,994,497	345,666	1,648,831
PWTFL Water Pollution Facility Expansion	06-25-06	07-01-26	0.50%	7,000,000	3,684,211	3,315,789
WPTFL WPCF Plant Expanssion Phase C	01-31-13	06-01-32	0.50%	10,000,000	1,773,717	8,226,283
Mukilteo Water District	01-01-11	09-30-24	7.82%	140,883	92,389	48,494
Leases Payable	05-15-03	07-01-17	2.00-5.00%	54,098	54,098	-
Leases Payable	10-30-17	07-31-21	2.53%	70,214	7,320	62,894
Total Business Activities				\$ 57,751,628	\$ 28,424,258	\$ 29,327,370
TOTAL OTHER LONG-TERM DEBT				\$ 61,114,530	\$ 30,251,912	\$ 30,862,618

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

YEAR ENDING DECEMBER 31,	GOVERNMENTAL ACTIVITIES			BUSINESS-TYPE ACTIVITIES		
	PRINCIPAL	INTEREST	TOTAL REQUIREMENTS	PRINCIPAL	INTEREST	TOTAL REQUIREMENTS
2018	\$ 186,615	\$ 37,724	\$ 224,339	\$ 3,096,968	\$ 292,208	\$ 3,389,176
2019	134,733	34,610	169,343	3,093,529	260,314	3,353,843
2020	137,098	31,969	169,067	3,097,948	228,247	3,326,195
2021	139,533	29,259	168,792	3,091,719	196,046	3,287,765
2022	142,040	26,475	168,515	2,761,587	165,261	2,926,848
2023 - 2027	475,010	90,700	565,710	10,413,999	465,733	10,879,732
2028 - 2032	320,220	19,206	339,426	3,706,077	106,809	3,812,886
2033	-	-	-	65,542	956	66,498
TOTAL	\$ 1,535,248	\$ 269,944	\$ 1,805,192	\$ 29,327,370	\$ 1,715,574	\$ 31,042,944

Bond Covenants, Limitations and Restrictions

At December 31, 2017, restricted assets of enterprise funds include \$ 2,917,186 for bond redemption. The City has also purchased a surety policy to cover all outstanding Water and Sewer Revenue Bonds. These represent redemption funds and reserve requirements as contained in the various bond ordinances.

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

Debt Limit

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

Segment 1 - General Governmental Purposes

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

Segment 2 - City-Owned Water and Sewer Purposes

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

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

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

At December 31, 2017 the debt limits for the City were as follows:

	Governmental Purposes		Water & Sewer Purposes	Park & Capital Facilities
	<u>Without Vote (Councilmanic)</u>	<u>With Vote</u>	<u>With Vote</u>	<u>With Vote</u>
	1.50%	1.00%	2.50%	2.50%
Legal Limits, Net	\$ 222,962,464	\$ 148,641,643	\$ 371,604,107	\$ 371,604,107
Net Outstanding Indebtedness	45,890,248	-	-	-
Margin Available	\$ 177,072,216	\$ 148,641,643	\$ 371,604,107	\$ 371,604,107

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

NOTE 11 - LEASES AND OTHER CONTRACTUAL COMMITMENTS

Lease Receivables

Everett Transit owns transportation hub Everett Station, and leases office and retail space. As of December 31, 2017, the asset cost of Everett Station was \$47,049,382, with accumulated depreciation of \$15,970,248, resulting in a cost net of depreciation of \$31,079,134. Commitments under lease contractual agreements provide for minimum annual payments as follows:

Year Ending December 31	Minimum Future Rentals
2018	40,285
2019	40,285
2020	40,285
2021	40,285
Total	<u>\$ 161,141</u>

Operating Leases and Other Contractual Commitments

The City leases equipment and office and storage space under non-cancelable operating leases. Total operating lease expenditures for 2017 were \$527,322 in governmental activities and \$661,066 in business-type activities. The City also contracts for certain professional services such as the management of golf courses and parking facilities and the monitoring and maintenance of equipment such as elevators, heating, ventilation and air conditioning, and fire alarm systems in City buildings. Commitments under lease and professional service contractual agreements provide for minimum annual payments as follows:

Year Ending December 31	Leases	Professional Services
2018	\$ 419,979	\$ 2,563,355
2019	9,217	985,161
2020	-	317,950
2021	-	160,054
2022	-	118,541
Total	<u>\$ 429,197</u>	<u>\$ 4,145,061</u>

Capital Leases

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

The assets acquired through capital leases as of December 31, 2017 appear as follows:

	Governmental Fund	Enterprise Funds
Machinery and equipment	\$ -	\$ 70,214
Less accumulated depreciation	-	-
Machinery and equipment, net of depreciation	<u>\$ -</u>	<u>\$ 70,214</u>

The future minimum lease obligations and the net present value of minimum lease payments as of December 31, 2017 appear as follows:

Year Ending December 31	Governmental Fund	Enterprise Funds
2018	\$ -	\$ 21,564
2019	-	21,564
2020	-	21,564
2021	-	10,782
Total minimum lease payments	-	75,473
Less amounts attributable to interest	-	(12,579)
Net present value of minimum lease payments	\$ -	\$ 62,894

Construction Commitments

As of December 31, 2017, the City had other outstanding contractual commitments, which include construction and engineering contracts for capital projects currently in progress. The City's major significant outstanding contract obligations are summarized as follows:

PROJECT	Expended To Date	Remaining Commitment
Various City Facilities Roofing/Siding projects	\$ 1,408,737	\$ 486,366
2017 Asphalt Overlay	4,228,759	76,443
41st Street to WMVD Freight corridor Improvements	3,082,270	14,806
Broadway Bridge Replacement	383,394	184,975
Citywide Intersection Signing	648,777	95,336
Deep Water Outfall	70,072	51,373
Diking Improvements District No. 5 Dike Repairs	551,036	236,538
Everett Downtown Streetscape Hoyt - Pacific	105,233	569,287
GRAND AVENUE PARK BRIDGE	381,536	13,435,903
Grand Avenue Park Bridge Design	2,458,817	969,891
Hayes Street Regulator and CSO Controls	2,621,318	491,060
Lake Chaplain Road Culvert Replacement	166,611	10,864
Load Rate Bigelow Creek Bridge	-	6,878
Northwest Stormwater Separation Project	750,511	48,356
Pacific Ave & Broadway Safety Improvements	984,357	77,957
Prelim. Design of SR4 & SR39 MOD Project	448,629	8,723
Riverfront Development	10,425,618	279,375
Various Sewer Replacement & Capacity Improvement	8,388,043	508,316
Three Lakes Valve By-pass	364,030	853,461
Tulalip Water Pipeline	123,395	46,605
Water Filtration Plant	248,861	850,719
WFP Clearwell Roof Replacement	261,333	2,760,864
WPCF Diversion Structure Zero - Predesign	393,761	603,909
Everett parks improvement projects	139,200	108,800
Total	\$ 38,634,297	\$ 22,776,804

NOTE 12 - CHANGES IN LONG-TERM LIABILITIES

Changes in Long-term Liabilities

During the year ended December 31, 2017, the following changes occurred in long-term liabilities:

	Beginning Balance 01-01-17	Additions	Reductions	Ending Balance 12-31-17	Due Within One Year
Governmental Activities					
Bonds payable:					
General obligation bonds	\$ 44,500,000	\$ -	\$ (2,145,000)	\$ 42,355,000	\$ 2,240,000
Plus deferred amounts:					
For issuance premiums	703,812	-	(70,381)	633,431	70,381
Total bonds payable:	45,203,812	-	(2,215,381)	42,988,431	2,310,381
Governmental loans	1,526,174	193,459	(184,385)	1,535,248	176,092
Pollution remediation liability	1,550,050	-	-	1,550,050	5,000
OPEB Obligations	2,631,005	3,288,482	-	5,919,487	-
Accrued General Pension Costs	33,232,859	24,680,800	(33,232,859)	24,680,800	-
Claims and judgements	11,167,315	19,819,803	(19,457,897)	11,529,221	6,425,932
Compensated absences	10,423,840	8,918,644	(8,896,189)	10,446,295	4,247,120
Governmental activity long-term liabilities:	<u>\$ 105,735,055</u>	<u>\$ 56,901,188</u>	<u>\$ (63,986,711)</u>	<u>\$ 98,649,532</u>	<u>\$ 13,164,525</u>
Business-Type Activities					
Bonds payable:					
General obligation bonds	\$ 3,000,000	\$ -	\$ (1,000,000)	\$ 2,000,000	\$ 1,000,000
Revenue bonds	181,515,000	-	(7,120,000)	174,395,000	7,375,000
Plus deferred amounts:					
For issuance premiums	16,283,451	-	(1,126,646)	15,156,805	1,126,646
Total bonds payable:	200,798,451	-	(9,246,646)	191,551,805	9,501,646
Governmental loans	32,343,217	-	(3,078,741)	29,264,476	3,081,183
Pollution remediation liability	300,000	821,500	-	1,121,500	-
Capital leases	8,783	70,214	(16,103)	62,894	15,785
Accrued Pension Costs	24,308,136	18,482,219	(24,308,136)	18,482,219	-
Compensated absences	2,689,982	3,348,366	(3,191,326)	2,847,022	1,453,855
Business-type activity long-term liabilities:	<u>\$ 260,448,569</u>	<u>\$ 22,722,299</u>	<u>\$ (39,840,952)</u>	<u>\$ 243,329,916</u>	<u>\$ 14,052,469</u>

Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities related to internal service funds are included as part of the above totals for governmental activities. At year-end \$181,698 of internal service funds compensated absences and \$3,004,760 of internal service funds pension cost liability are included in the above amounts. Also, for governmental activities, claims and judgments and compensated absences are generally liquidated by the general fund.

NOTE 13 – CONTINGENCIES AND LITIGATION

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

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

The City participates in a number of federal- and state-assisted programs. These grants are subject to audit by the grantors or their representatives. Such audits could result in requests for reimbursement to grantor agencies for expenditures disallowed under the terms of the grants. City management believes that such disallowances, if any, would be immaterial.

NOTE 14 - INTERFUND BALANCES AND TRANSFERS

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

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

Interfund loan balances at December 31, 2017 appear as follows:

	INTERFUND LOANS RECEIVABLE	INTERFUND LOANS PAYABLE	ADVANCES TO OTHER FUNDS	ADVANCES FROM OTHER FUNDS
General Fund	\$ 386,704	\$ -	\$ 6,549,168	\$ -
Water & Sewer Utility	1,938,700	-	-	-
Nonmajor Governmental Funds	-	155,975	-	-
Nonmajor Enterprise Funds	-	1,938,700	-	6,549,168
Fiduciary Fund	-	230,729	-	-
TOTAL	\$ 2,325,404	\$ 2,325,404	\$ 6,549,168	\$ 6,549,168

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

Due to other fund and due from other fund balances at December 31, 2017 appear as follows:

	DUE FROM OTHER FUNDS	DUE TO OTHER FUNDS
General Fund	\$ 41,064	\$ 805,258
Capital Improvement Reserve	800,000	-
Water & Sewer Utility	1,525	-
Transit	-	64
Nonmajor Governmental Funds	3,733	39,439
Nonmajor Enterprise Funds	64	-
Internal service funds	-	1,625
TOTAL	\$ 846,386	\$ 846,386

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

Interfund transfer activity for the year ending December 31, 2017 appears as follows:

	TRANSFERS IN				TOTAL
	General Fund	Capital Improvement Reserve Fund	Nonmajor Governmental Funds	Internal Service Funds	
TRANSFERS OUT					
General Fund	\$ -	\$ 5,200,000	\$ 870,884	\$ 162,012	\$ 6,232,895
Capital Improvement Reserve Fd	805,295	-	3,350,787	-	4,156,082
Water & Sewer Utility	4,900,968	-	-	-	4,900,968
Transit	303,593	-	-	-	303,593
Nonmajor Governmental Funds	2,258,897	-	3,188,591	-	5,447,488
Internal Service Funds	50,004	-	-	-	50,004
TOTAL	\$ 8,318,757	\$ 5,200,000	\$ 7,410,262	\$ 162,012	\$ 21,091,030

A transfer is considered significant if it is for a transaction that does not occur on a routine basis or is inconsistent with the customary activities of the fund making the transfer. In 2017, the following significant transfers were completed;

- \$5,200,000 from Fund 002 – General fund, to Fund 162 – Capital Projects Reserve.
- \$938,000 from Fund 162 – Capital Projects Reserve, to Fund 342 – City Facilities Construction Fund, a Capital Project fund.
- \$2,027,787 from Fund 162 – Capital Projects Reserve, to Fund 210 – Debt Service fund.
- \$858,840 from Fund 002 – General fund, to Fund 210 – Debt Service fund.

NOTE 15 - RECEIVABLE AND PAYABLE BALANCES

Receivables at December 31, 2017 appear as follows:

	Taxes	Customer Accounts	Interest	Due from Other Governments	Notes Receivable	TOTAL
Governmental Activities:						
General Fund	\$ 11,695,523	\$ 2,115,383	\$ 196,226	\$ 28,622,865	\$ 104,991	\$ 42,734,988
Capital Improvement Reserve Fund	403,603	65,405	19,714	26,409	-	515,131
Nonmajor Governmental Funds	403,603	93,358	30,927	410,766	12,861,554	13,800,208
Internal Service Funds	-	160,952	21,271	53,606	-	235,829
Total Governmental Activities	\$ 12,502,729	\$ 2,435,098	\$ 268,138	\$ 29,113,646	\$ 12,966,545	\$ 57,286,156
Business-Type Activities:						
Water & Sewer Utility	\$ -	\$ 9,794,529	\$ 87,723	\$ 1,292,513	\$ -	\$ 11,174,765
Transit	3,721,081	37,597	12,038	890,511	-	4,661,227
Nonmajor Enterprise Funds	-	289,777	5,425	47,454	-	342,656
Total Business-Type Activities	\$ 3,721,081	\$ 10,121,903	\$ 105,186	\$ 2,230,478	\$ -	\$ 16,178,648

Governmental Activities

General Fund - Customer Accounts include \$1,299,616 Muni Court receivable and \$665,000 from PFD for Scoreboard

Due from Other Governments include \$28,397,100 from PFD for 2014 Refunding Bonds (See Note 1)

Notes Receivable excludes \$1,035,009 discount on notes reported in the Government Wide Statement of Net Position

The receivables from PFD are not expected to be collected within one year

Payables at December 31, 2017 appear as follows:

	Wages & Benefits	Accounts Payable	Interest	Taxes	Due to Other Governments	Custodial Accounts	Other Liabilities	TOTAL
Governmental Activities:								
General Fund	\$2,389,788	\$1,949,220	\$52,302	\$ -	\$ 165,104	\$ 256,142	\$ 247,020	\$ 5,059,576
Capital Improvement Reserve Fund	-	-	-	-	-	-	128	128
Nonmajor Governmental Funds	\$267,864	952,783	-	-	644	-	519	1,221,810
Internal Service Funds	38,183	698,200	-	972	-	-	314,265	1,051,620
Total	\$ 2,695,835	\$ 3,600,203	\$ 52,302	\$ 972	\$ 165,748	\$ 256,142	\$ 561,932	\$ 7,333,134
Business-Type Activities:								
Water & Sewer Utility	\$ 333,556	\$ 3,966,749	\$ 688,240	\$ 230,557	\$ -	\$ -	\$ -	\$ 5,219,102
Transit	208,882	350,547	-	16,461	444,860	750,000	-	1,770,750
Nonmajor Enterprise Funds	13,616	93,421	6,875	12,060	-	-	-	125,972
Total	\$ 556,054	\$ 4,410,717	\$ 695,115	\$ 259,078	\$ 444,860	\$ 750,000	\$ -	\$ 7,115,824

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

Governmental Activities

Internal Service Fund \$ 107,343

Business-Type Activities

Water and Sewer \$ 945,614

Transit 474,048

Nonmajor Enterprise 34,193

NOTE 16 - JOINT VENTURES

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

The **Snohomish River Regional Water Authority** (SRRWA) was created for the planning, development, ownership, management and financing of water supply sources and transmission, and other water supply facilities, either by itself or in cooperation with other municipal providers of utilities. The primary purpose is to facilitate efficient water resource development and utilization through interlocal cooperation. The SRRWA board is comprised of one representative of each of three members, who is an elected public official designated in writing, authorized to represent the member in meetings of the membership and Board of Directors. The City has a 41.67 percent interest in the joint venture at December 31, 2017 and recorded an investment in the joint venture in the utility fund of \$669,332. As of December 31, 2017, the SRRWA had accumulated sufficient resources and was not experiencing any fiscal stress. Separate financial statements for the joint venture may be obtained from the City of Everett, Utilities Finance Manager, 3200 Cedar Street, Everett, WA 98201.

The **Snohomish County Emergency Radio System** (SERS), a nonprofit corporation pursuant to chapter 24.06 RCW and IRC 501(c)(3), was established via an interlocal agreement in 1999. Member entities include Snohomish County, Fire District 1, and the Cities of Brier, Edmonds, Lynnwood, Marysville, Mill Creek, Mountlake Terrace, Mukilteo, Woodway, and Everett. The purpose of SERS is to develop, operate and maintain a countywide public safety communications system. The governing board consists of ten directors, one appointed by each City and County member, with the authority to take all actions on behalf of SERS. A cost allocation model is used to determine each Member's share of financial obligations. The cost allocation model is reviewed and recalculated annually to reflect population, geographic service area and calls for service from January 1 through December 31 of each year. As of December 31, 2017, the City has a 13.67 percent interest in the SERS joint venture and a recorded equity interest of \$1,091,652. Based on summary financial information provided to the City by Snohomish County, it does not appear that SERS is experiencing any fiscal stress. Separate financial statements for the joint venture may be obtained from Snohomish County, Finance Department, 3000 Rockefeller Avenue, Everett, WA 98201.

One Regional Card for All (ORCA) was established by interlocal agreement for the operating phase of the Regional Fare Integration Project also known as the Smart Card Project. This ten-year agreement among City of Everett (Everett Transit), Snohomish County Transit Authority (Community Transit), Sound Transit, King County Metro, Pierce Transit, Kitsap Transit and Washington State Ferries commenced April 1, 2009. Pursuant to the Interlocal Cooperation Act, chapter 39.34 RCW, the participating agencies jointly exercise their powers to better coordinate their respective services and fare payment systems in order to improve the availability, reliability and convenience of public transportation services within their service areas and throughout the region served by the agencies. Everett Transit's undivided interest in the assets, liabilities and operations of the ORCA smart card are consolidated within these financial statements on a proportionate basis. Everett Transit's interest in the central cash accounts as of December 31, 2017, is \$144,449 which represents unearned fare revenue. Everett Transit's percentage share of the operating expense for 2017 was 0.86% and capital expense is 0.80%. Separate financial statements for the joint venture may be obtained from Sound Transit, ORCA Regional Fare Coordination System, 401 S Jackson St, Seattle, WA 98104-2826.

The **Snohomish County Police Staff and Auxiliary Services Center** (SNOPAC) a cash basis, special purpose district was created under the Interlocal Cooperation Act as codified in RCW 39.34, with the City of Everett Police and Fire in addition to other 36 Police and Fire entities. This established the statutory authority necessary for Snohomish County, the Cities, Towns, Fire Districts, Police Districts and other service districts to enter into a contract and agreement to jointly establish, maintain and operate a support communications center. The control of SNOPAC is with an 11 member Board of Directors which is specified in the Interlocal Agreement. SNOPAC takes 911 calls, and performs emergency dispatch services for local governmental agencies including police, fire and medical aid. As of December 31, 2017, the City of Everett's share of total ending cash balance was \$5,261,014, which was calculated by multiplying ending cash balance by 2017 Operating Assessment percentage .

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

The Alliance for Housing Affordability (AHA) was created in 2013 by the City of Everett and eleven other jurisdictions within Snohomish County to cooperatively formulate affordable housing goals and policies and to foster efforts to provide affordable housing by providing expertise and information to member jurisdictions. The AHA is governed by a Joint Board composed of an elected official from the jurisdictions. The Joint Board is responsible for review and approval of all budgetary, financial, policy, and contractual matters. The Board is assisted by an administrative staff housed at the Housing Authority for Snohomish County. Fiscal agent duties are performed by the City of Mountlake Terrace. Operating funding is provided by the member cities based on each member's population. The City of Everett population makes up approximately 14.95% of total member's population. The City's contribution for 2017 is as follows:

Fiscal Year 7/1/16-6/30/2017	AHA's total Fiscal Year Budget	City of Everett's Share of Budget	City of Everett's Share % of Total AHA Budget
2017	\$97,934	\$9,239	9.43%

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

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

NOTE 17 – POLLUTION REMEDIATION OBLIGATIONS

The City recorded the following pollution remediation obligations as other liabilities in its financial statements as of December 31, 2017, in accordance with GASB Statement No. 49:

SITE	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES
4000 Block South Second Avenue	\$ 1,400,000	
2731 36 th Street Southeast	100,000	
2808 10 th Street	50,050	
144 West Marine View Drive		\$ 300,000
3600 Smith Street		821,500
TOTALS	\$ 1,550,050	\$ 1,121,500

The City identified a release of contaminants at the 4000 block of South Second Avenue, Everett, Washington, and will pursuing a Voluntary Cleanup Program (VCP) agreement with the Washington State Department of Ecology (DOE) when the project commences. As of December 31, 2017, the City estimated the liability with regard to pollution remediation at this site to be \$1,400,000.

The City identified a release of contaminants at 2731 36th Street Southeast, Everett, Washington, and entered into a VCP agreement with the DOE to remediate the site in previous periods. The City remediated the soil contamination portion of the site during 2010 and then let lapse the VCP agreement with DOE. In the interim, the City continued to test and manage the site under a voluntary action for groundwater. At the completion of the interim action, a VCP agreement is expected to be re-engaged. As of December 31, 2017, the City concluded that additional remediation was needed, and estimated the liability with regard to pollution remediation at this site to be \$100,000.

The site located at 2808 10th Street, Everett, Washington was identified as contaminated by releases from the neighboring former ASARCO plant. As of December 31, 2017, the City estimated the liability with regard to pollution remediation at this site to be \$50,050.

The site located at 144 West Marine View Drive, Everett, Washington had previously been identified as contaminated by releases from the neighboring former ASARCO plant. The City voluntarily remediated the site in 1998 in conjunction with a VCP agreement with the DOE. The City had expected to receive a notice of no further action from

the DOE upon completion of the DOE's Final Cleanup Action Plan for ASARCO. The City's original VCP agreement expired, a new VCP agreement was reinstated in 2008, and the DOE requested the City to send the DOE an analysis of current soil samples at the site. The City engaged an independent engineering firm to analyze soil samples at the site and submit its findings to the DOE, this work was performed during 2009, and the City submitted several alternative remediation proposals to the DOE for consideration. As of December 31, 2017, the City estimated liability with regard to pollution remediation at this site to be \$300,000.

The land at 3600 Smith Street for a new transit operations center was purchased in 2017. Per purchase agreement, the City set up an environmental holdback \$750,000, from which the City may withdraw if the City incurs costs for eligible remediation work in excess of \$821,500. As of December 31, 2017, the City estimated liability with regard to pollution remediation at this site to be \$821,500.

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

NOTE 18 - TAX ABATEMENTS

As of December 31, 2017, the City provides tax abatements through two programs – the Multifamily Housing Property Tax Exemption, and the New Job Tax Credit.

Multifamily Housing Property Tax Exemption

The Multifamily Housing Property Tax Exemption program provides property tax exemptions to stimulate the construction of new multifamily housing and the rehabilitation of existing vacant and underutilized buildings for multifamily housing in the City's urban center, in keeping with the goals of the Growth Management Act (Chapter 36.70A RCW).

The value of new construction, conversion, and rehabilitation improvements qualifying under this program are exempt from ad valorem property taxation for:

- Ten years provided applications have been submitted prior to July 22, 2007;
- Eight years if applications were submitted on or after July 22, 2007; or
- Twelve years if applications were submitted on or after July 22, 2007, the property otherwise qualifies for the exemption under Chapter 84.14 RCW, and the owner commits to renting or selling at least twenty percent of the multifamily housing units as affordable housing units to low- and moderate-income households.

Tax exemptions are obtained through application by the property owner to the Director of Planning and Community Development. Property owners receiving tax exemptions are required to file a notarized annual declaration with the Director indicating ongoing compliance, which is verified by City staff through an on-site verification.

New Jobs Tax Credit

The purpose of the New Jobs Tax Credit is to encourage business growth or relocation into the City. In order to qualify for the tax credit, businesses must create fifty or more new full-time employment positions within four consecutive quarters. The credit is equal to one thousand dollars for each new full-time employment position created, and is used to reduce the amount of Business & Occupation tax owed by the business. A business may claim credit under this program multiple times, up to a cap of five hundred thousand per business.

Businesses must complete an application and submit it to the City Clerk. Businesses receiving the New Jobs Tax Credit must maintain the total number of full-time employment positions existing at the time the credit is claimed for a period of three years. If the business does not maintain the total number of full-time employment positions for three years, the credit will be forfeit and the business will be required to pay any amount of credit previously received.

Tax Abatement Program	Amount of Taxes Abated
Multifamily Property Tax Exemption	\$110,563
New Jobs Tax Credit	\$237,335

State of Washington Sales Tax Exemptions

The State of Washington has tax abatement agreements that allow for sales/use tax exemptions and deferrals.

Purchases for the construction of new buildings, including labor and services rendered, used to manufacture commercial airplanes or fuselages or wings of commercial airplanes are exempt from sales and use tax per RCW 82.08.980 and 82.12.980. The exemption also applies to new buildings or parts of new buildings used for storing raw materials or finished products used to manufacture commercial airplanes and certain commercial airplane parts. Port districts, political subdivisions, or municipal corporations may also use the sales and use tax exemption when constructing new facilities to lease to these manufacturers. The eligible purchaser must present a Buyers' Retail Sales Tax exemption Certificate to the seller at the time of purchase.

Specific exemptions include:

- Data Center Server Equipment and Power Infrastructure Sale and Use Tax Exemption
- High Technology Sales and Use Tax Deferral
- Biotechnology and Medical Device Manufacturing Sales and Use Tax Deferral
- Exemption for the Construction of New Facilities Used to Manufacture Commercial Airplanes, Fuselages, or Wings of Commercial Airplanes (Aerospace)
- Exemption for Computer Hardware, Software, and Peripherals (Aerospace)

The State of Washington is prohibited by the law to disclose detail on the amount of abatements provided under these exemptions and deferrals.

NOTE 19 - OTHER DISCLOSURES

A. CORRECTION OF AN ERROR

The Everett Public Facilities District corrected amounts previously stated for the year ended December 31, 2016. Revenues and expenses were both overstated by \$1,582,639 due to duplication of entries. This error has been present since 2006. However, this correction did not impact the operating loss, net cash provided by operating activities nor net position.

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES- BUDGET AND ACTUAL

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL GENERAL FUND FOR YEAR ENDED DECEMBER 31, 2017

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET - POSITIVE (NEGATIVE)
REVENUES				
Taxes	\$ 85,201,686	\$ 85,195,757	\$ 85,138,075	\$ (57,682)
Licenses and permits	4,516,621	4,516,621	4,284,350	(232,271)
Intergovernmental revenues	2,788,029	4,349,076	4,294,629	(54,447)
Charges for services	9,160,393	7,303,623	6,579,015	(724,608)
Fines and forfeits	1,500,760	1,500,760	1,311,335	(189,425)
Other revenues	838,034	838,034	856,042	18,008
TOTAL REVENUES	104,005,523	103,703,871	102,463,446	(1,240,425)
EXPENDITURES				
Current:				
General government services	23,078,096	27,840,471	26,115,597	1,724,874
Security of persons and property	65,952,733	68,663,277	65,867,171	2,796,106
Transportation	4,264,656	4,286,674	4,154,291	132,383
Economic environment	5,632,993	5,908,087	5,443,149	464,938
Mental and physical health	1,084,394	1,229,585	1,158,008	71,577
Culture and recreation	687,075	687,075	703,839	(16,764)
Capital outlay	40,966	240,966	75,357	165,609
TOTAL EXPENDITURES	100,740,913	108,856,135	103,517,412	5,338,723
Excess (deficiency) of revenues over (under) expenditures	3,264,610	(5,152,264)	(1,053,966)	4,098,298
OTHER FINANCING SOURCES (USES)				
Transfers in	5,450,308	7,551,798	7,461,868	(89,930)
Transfers out	(7,314,918)	(9,614,918)	(9,564,914)	50,004
Total other financing sources (uses)	(1,864,610)	(2,063,120)	(2,103,046)	(39,926)
Net change in fund balances	1,400,000	(7,215,384)	(3,157,012)	4,058,372
Fund balances - beginning	24,638,927	33,005,604	68,077,513	35,071,909
FUND BALANCES - ENDING	\$ 26,038,927	\$ 25,790,220	\$ 64,920,501	\$ 39,130,281

**SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
CAPITAL IMPROVEMENT RESERVE FUND
FOR YEAR ENDED DECEMBER 31, 2017**

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET - POSITIVE (NEGATIVE)
REVENUES				
Taxes	\$ 2,250,000	\$ 2,250,000	\$ 3,331,453	\$ 1,081,453
Other revenues	406,785	406,785	85,900	(320,885)
TOTAL REVENUES	2,656,785	2,656,785	3,417,353	760,568
EXPENDITURES				
Current:				
Culture and recreation	500,000	500,000	500,000	-
TOTAL EXPENDITURES	500,000	500,000	500,000	-
Excess (deficiency) of revenues over (under) expenditures	2,156,785	2,156,785	2,917,353	760,568
OTHER FINANCING SOURCES (USES)				
Transfers in	4,800,000	4,800,000	5,200,000	400,000
Transfers out	(3,031,496)	(10,788,016)	(4,156,082)	6,631,934
Total other financing sources (uses)	1,768,504	(5,988,016)	1,043,918	7,031,934
Net change in fund balances	3,925,289	(3,831,231)	3,961,271	7,792,502
Fund balances - beginning	16,301,952	23,205,472	24,243,114	1,037,642
FUND BALANCES - ENDING	\$ 20,227,241	\$ 19,374,241	\$ 28,204,385	\$ 8,830,144

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

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

Revenues

Actual Amount	\$ 102,463,446
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Differences - Budget to GAAP

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

Parks & Recreation Fund	9,066,590
Library Fund	5,292,882
Municipal Arts Fund	924,682
Conference Center Fund	115,418
Motor Vehicle Equip Repl Fund	32,501
Cum Reserve Real Prop Acq Fund	83,990
Property Management Fund	682,904
Senior Center Reserve Fund	80,862
Contingency Reserve Fund	<u>(7,316)</u>

Total revenues as reported on the statement of revenues, expenditures, and changes in fund balance - general fund	<u><u>\$ 118,735,959</u></u>
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Expenditures

Actual Amount	\$ 103,517,412
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Differences - Budget to GAAP

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

Parks & Recreation Fund	8,990,118
Library Fund	5,293,945
Municipal Arts Fund	900,272
Conference Center Fund	57,625
Motor Vehicle Equip Repl Fund	1,876,934
Cum Reserve Real Prop Acq Fund	135,324
Property Management Fund	2,049,237
Senior Center Reserve Fund	<u>68,013</u>

Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balance - general fund	<u><u>\$ 122,888,880</u></u>
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FIRE AND POLICE PENSION FUNDS

SCHEDULE OF CHANGES IN THE CITY'S NET PENSION LIABILITY AND RELATED RATIOS Last Eight Fiscal Years*

	2017	2016	2015	2014	2013	2012	2011	2010
Fire								
Total pension liability								
Service cost **	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Interest expense	407,400	274,070	279,333	321,047	336,661	391,019	397,248	558,350
Difference between expected and actual experience	21,179	(170,129)	98,923	534,898	-	117,605	97,689	90,690
Changes of assumptions	3,721,618	-	-	1,156,048	-	(913,665)	-	(3,120,762)
Benefits paid	(722,821)	(792,142)	(528,629)	(903,934)	(393,969)	(485,124)	(619,526)	(750,321)
Other	-	-	-	-	-	-	-	-
Net changes	3,427,376	(688,201)	(150,373)	1,108,059	(57,308)	(890,165)	(124,589)	(3,222,043)
Total pension liability-beginning	7,142,384	7,830,584	7,980,957	6,872,898	6,930,206	7,820,371	7,944,960	11,167,003
Total pension liability-ending	\$ 10,569,760	\$ 7,142,384	\$ 7,830,584	\$ 7,980,957	\$ 6,872,898	\$ 6,930,206	\$ 7,820,371	\$ 7,944,960
Plan fiduciary net position								
Contributions-employer/state	\$ 515,525	\$ 166,410	\$ 1,365,598	\$ 170,627	\$ 155,946	\$ 147,478	\$ 154,877	\$ 149,966
Expected Investment Earnings	383,000	340,819	345,084	-	-	-	-	-
Difference between expected and actual investment earnings	(246,048)	(341,313)	(18,861)	511,470	101,404	245,782	461,607	163,869
Benefit payments	(722,821)	(792,142)	(528,629)	(903,934)	(393,969)	(485,124)	(619,526)	(750,321)
Other	(200)	(525)	(138)	-	-	-	(3,729)	(697)
Net changes in plan fiduciary net position	(70,544)	(626,751)	1,163,054	(221,837)	(136,619)	(91,864)	(6,771)	(437,183)
Plan fiduciary net position-beginning	10,601,447	11,228,198	10,065,144	10,286,981	10,423,600	10,225,226	4,231,997	4,669,180
Prior period correction	-	-	-	-	-	290,238	6,000,000	-
Plan fiduciary net position-ending	\$ 10,530,903	\$ 10,601,447	\$ 11,228,198	\$ 10,065,144	\$ 10,286,981	\$ 10,423,600	\$ 10,225,226	\$ 4,231,997
Per Fund Stmt								
Net pension liability	\$ 38,857	\$ (3,459,063)	\$ (3,397,614)	\$ (2,084,187)	\$ (3,414,083)	\$ (3,493,394)	\$ (2,404,855)	\$ 3,712,963
Plan fiduciary net position as a percentage of the total pension liability	99.63%	148.43%	143.39%	126.11%	149.67%	150.41%	130.75%	53.27%
Covered employee payroll ***	\$ 51,232	\$ 199,405	\$ 187,937	\$ 286,645	\$ 339,682	\$ 622,642	\$ 545,905	\$ 891,440
Net pension liability as a percentage of covered employee payroll	75.84%	-1734.69%	-1807.85%	-727.10%	-1005.08%	-561.06%	-440.53%	416.51%
Police								
Total pension liability								
Service cost **	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Interest expense	214,500	175,970	193,424	287,037	292,753	297,663	306,872	296,385
Difference between expected and actual experience	29,952	(132,630)	(160,813)	(1,768,304)	-	38,128	42,485	45,660
Changes of assumptions	1,152,261	-	-	1,454,959	-	311,552	-	455,201
Benefits paid	(477,050)	(503,312)	(531,296)	(376,067)	(438,065)	(526,522)	(533,545)	(587,493)
Other	-	-	-	-	-	-	-	-
Net changes	919,663	(459,972)	(498,685)	(402,375)	(145,312)	120,821	(184,188)	209,753
Total pension liability-beginning	4,567,739	5,027,711	5,526,396	5,928,771	6,074,083	5,953,262	6,137,450	5,927,697
Total pension liability-ending	\$ 5,487,402	\$ 4,567,739	\$ 5,027,711	\$ 5,526,396	\$ 5,928,771	\$ 6,074,083	\$ 5,953,262	\$ 6,137,450
Plan fiduciary net position								
Contributions-employer/state	\$ 800,000	\$ 1,468,086	\$ 2,161,085	\$ -	\$ -	\$ -	\$ -	\$ -
Expected Investment Earnings	186,000	86,287	85,176	-	-	-	-	-
Difference between expected and actual investment earnings	(91,479)	(55,542)	(3,141)	(376,067)	(438,065)	(526,522)	(533,545)	(587,493)
Benefit payments	(477,050)	(503,312)	(531,296)	(376,067)	(438,065)	(526,522)	(533,545)	(587,493)
Other	(200)	(175)	(413)	-	-	-	-	-
Net changes in plan fiduciary net position	417,271	995,344	1,711,411	(376,067)	(438,065)	(526,522)	(533,545)	(587,493)
Plan fiduciary net position-beginning	5,211,030	4,215,686	2,504,275	2,880,342	2,622,845	4,524,250	557,795	1,145,288
Prior period correction	-	-	-	-	-	(1,374,883)	4,500,000	-
Plan fiduciary net position-ending	\$ 5,628,301	\$ 5,211,030	\$ 4,215,686	\$ 2,504,275	\$ 2,184,780	\$ 2,622,845	\$ 4,524,250	\$ 557,795
Per Fund Stmt								
Net pension liability	\$ (140,900)	\$ (643,292)	\$ 812,025	\$ 3,022,121	\$ 3,743,991	\$ 3,451,238	\$ 1,429,012	\$ 5,579,655
Plan fiduciary net position as a percentage of the total pension liability	102.57%	114.08%	83.85%	45.31%	36.85%	43.18%	76.00%	9.09%
Covered employee payroll ***	\$ -	\$ 137,179	\$ 138,549	\$ 239,221	\$ 306,766	\$ 362,732	\$ 436,656	\$ 767,632
Net pension liability as a percentage of covered employee payroll	N/A	-468.94%	586.09%	1263.32%	1220.47%	951.46%	327.26%	726.87%

* This schedule will be 10 years as information is available.

** Service cost is \$0, since none of the active employees are eligible for the additional service credits.

*** There were one covered Fire employee, who retired in January 2017, and no covered Police employee in 2017.

SCHEDULE OF CITY CONTRIBUTIONS

Last Eight Fiscal Years*

Fire	2017	2016	2015	2014	2013	2012	2011	2010
Actuarially determined contribution	\$ 20,000	\$ (85,143)	\$ (81,088)	\$ (187,676)	\$ (178,998)	\$ (131,810)	\$ (125,850)	\$ 105,226
Contributions	350,000	166,410	1,365,599	170,627	155,946	147,478	154,877	149,966
Contribution deficiency (excess)	\$ (330,000)	\$ (251,553)	\$ (1,446,687)	\$ (358,303)	\$ (334,944)	\$ (279,288)	\$ (280,727)	\$ (44,740)
Covered employee payroll **	\$ 51,232	\$ 199,405	\$ 187,937	\$ 286,645	\$ 339,682	\$ 622,642	\$ 545,905	\$ 891,440
Contributions as a percentage of covered-employee payroll	683.17%	83.45%	726.63%	59.53%	45.91%	23.69%	28.37%	16.82%
Police								
Actuarially determined contribution	\$ 40,000	\$ 144,972	\$ 138,069	\$ 185,912	\$ 177,059	\$ 131,541	\$ 125,278	\$ 111,447
Contributions	800,000	1,468,086	2,161,085	-	-	-	-	-
Contribution deficiency (excess)	\$ (760,000)	\$ (1,323,114)	\$ (2,023,016)	\$ 185,912	\$ 177,059	\$ 131,541	\$ 125,278	\$ 111,447
Covered employee payroll **	\$ -	\$ 137,178	\$ 138,549	\$ 239,221	\$ 306,766	\$ 362,732	\$ 436,656	\$ 767,632
Contributions as a percentage of covered-employee payroll	N/A	1070.21%	1559.80%	0.00%	0.00%	0.00%	0.00%	0.00%

Valuation date:

Actuarially determined contribution rates are as of January 1, 2017.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal cost
Amortization period	Closed 30 year amortization period of the unfunded obligation beginning January 1, 2000.
Asset valuation method	Actuarial value of assets equal to market value
Inflation	2.25%
Salary increase	3.00%
Investment rate of return	3.75%
Mortality	
Service-retired members and spouses:	RP-2000 Mortality Table (combined healthy) with generational projection using 100% of Projections Scale BB, with ages set back one year for males and set forward one year for females.
Disabled members:	RP-2000 Mortality Table (combined healthy) with generational projection using 100% of Projections Scale BB, with ages set forward two years.
Retirement age	All actives are retired as of the valuation date.

* This schedule will be 10 years as information is available

** There were one covered Fire employee, who retired in January 2017, and no covered Police employee in 2017.

SCHEDULE OF INVESTMENT RETURNS
Last Eight Fiscal Years *

**Annual money-weighted rate of
return, net of investment
expenses**

	2017	2016	2015	2014	2013	2012	2011	2010
Fire	1.87%	0.05%	3.14%	9.76%	-6.52%	2.14%	7.48%	3.76%
Police	1.84%	-0.01%	3.18%	9.82%	-6.31%	2.68%	6.40%	3.66%

* This schedule will be 10 years as information is available

City of Everett
Schedule of Proportionate Share of the Net Pension Liability
PERS 1
As of June 30, 2017
Last 3 Fiscal Years*

		<u>2017</u>	<u>2016</u>	<u>2015</u>
Employer's proportion of the net pension liability (asset)	%	0.485018%	0.509161%	0.479404%
Employer's proportionate share of the net pension liability	\$	23,014,482	27,344,344	25,077,288
TOTAL	\$	23,014,482	27,344,344	25,077,288
Covered payroll*	\$	59,020,113	58,907,060	52,435,930
Employer's proportionate share of the net pension liability as a percentage of covered payroll	%	38.99%	46.42%	47.82%
Plan fiduciary net position as a percentage of the total pension liability	%	61.24%	57.03%	59.10%

* This schedule will be 10 years as information is available

City of Everett
Schedule of Proportionate Share of the Net Pension Liability
PERS 2 & 3
As of June 30, 2017
Last 3 Fiscal Years*

		<u>2017</u>	<u>2016</u>	<u>2015</u>
Employer's proportion of the net pension liability (asset)	%	0.577585%	0.597904%	0.562203%
Employer's proportionate share of the net pension liability	\$	20,068,318	30,103,994	20,087,834
TOTAL	\$	20,068,318	30,103,994	20,087,834
Covered payroll*	\$	56,628,484	56,301,378	49,849,648
Employer's proportionate share of the net pension liability as a percentage of covered payroll	%	35.44%	53.47%	40.30%
Plan fiduciary net position as a percentage of the total pension liability	%	90.97%	85.82%	89.20%

* This schedule will be 10 years as information is available

City of Everett
Schedule of Proportionate Share of the Net Pension Liability
LEOFF 1
As of June 30, 2017
Last 3 Fiscal Years*

		2017	2016	2015
Employer's proportion of the net pension liability (asset)	%	0.439348%	0.434225%	0.431425%
Employer's proportionate share of the net pension liability	\$	(6,665,876)	(4,473,759)	(5,199,625)
State's proportionate share of the net pension liability (asset) associated with the employer	\$	(45,087,820)	(30,260,397)	(35,170,132)
TOTAL	\$	(51,753,696)	(34,734,156)	(40,369,757)
Covered payroll*	\$	141,324	249,534	237,134
Employer's proportionate share of the net pension liability as a percentage of covered payroll	%	-4716.73%	-1792.85%	-2192.69%
Plan fiduciary net position as a percentage of the total pension liability	%	135.96%	123.74%	127.36%

* This schedule will be 10 years as information is available

City of Everett
Schedule of Proportionate Share of the Net Pension Liability
LEOFF 2
As of June 30, 2017
Last 3 Fiscal Years*

		2017	2016	2015
Employer's proportion of the net pension liability (asset)	%	1.302978%	1.307804%	1.945509%
Employer's proportionate share of the net pension liability	\$	(18,081,113)	(7,606,580)	(12,037,039)
State's proportionate share of the net pension liability (asset) associated with the employer	\$	(11,728,880)	(4,958,937)	(7,847,274)
TOTAL	\$	(29,809,993)	(12,565,517)	(19,884,313)
Covered payroll*	\$	40,759,097	39,618,462	33,991,128
Employer's proportionate share of the net pension liability as a percentage of covered payroll	%	-44.36%	-32.95%	-58.50%
Plan fiduciary net position as a percentage of the total pension liability	%	113.36%	106.04%	111.67%

* This schedule will be 10 years as information is available

City of Everett
Schedule of Proportionate Share of the Net Pension Liability
PSERS 2
As of June 30, 2017
Last 3 Fiscal Years*

		2017	2016	2015
Employer's proportion of the net pension liability (asset)	%	0.211104%	0.218027%	0.211384%
Employer's proportionate share of the net pension liability	\$	41,362	92,657	38,582
TOTAL	\$	41,362	92,657	38,582
Covered payroll*	\$	747,434	707,814	617,932
Employer's proportionate share of the net pension liability as a percentage of covered payroll	%	5.53%	13.01%	6.23%
Plan fiduciary net position as a percentage of the total pension liability	%	96.26%	90.41%	95.08%

* This schedule will be 10 years as information is available

City of Everett
Schedule of Employer Contributions
PERS 1
For the year ended December 31, 2017
Last 3 Fiscal Years*

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily or contractually required contributions	\$ 2,939,289	2,822,767	2,525,814
Contributions in relation to the statutorily or contractually required contributions*	\$ (2,939,289)	(2,822,767)	(2,525,814)
Contribution deficiency (excess)	\$ 0	0	0
Covered payroll*	\$ 57,968,890	57,908,615	55,592,788
Contributions as a percentage of covered payroll	%	5.07%	4.87%
			4.54%

* This schedule will be 10 years as information is available

City of Everett
Schedule of Employer Contributions
PERS 2 & 3
For the year ended December 31, 2017
Last 3 Fiscal Years*

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily or contractually required contributions	\$ 3,794,281	3,462,296	2,956,452
Contributions in relation to the statutorily or contractually required contributions*	\$ (3,794,281)	(3,462,296)	(2,956,452)
Contribution deficiency (excess)	\$ 0	0	0
Covered payroll*	\$ 55,682,589	55,524,137	52,988,069
Contributions as a percentage of covered payroll	%	6.81%	6.24%
			5.58%

* This schedule will be 10 years as information is available

City of Everett
Schedule of Employer Contributions
LEOFF 2
For the year ended December 31, 2017
Last 3 Fiscal Years*

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily or contractually required contributions	\$ 2,055,917	2,642,544	1,847,723
Contributions in relation to the statutorily or contractually required contributions*	\$ (2,055,917)	(2,642,544)	(1,847,723)
Contribution deficiency (excess)	\$ 0	0	0
Covered payroll*	\$ 39,983,105	38,093,810	36,588,195
Contributions as a percentage of covered payroll	% 5.14%	6.94%	5.05%

* This schedule will be 10 years as information is available

City of Everett
Schedule of Employer Contributions
PSERS 2
For the year ended December 31, 2017
Last 3 Fiscal Years*

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily or contractually required contributions	\$ 49,510	46,918	43,679
Contributions in relation to the statutorily or contractually required contributions*	\$ (49,510)	(46,918)	(43,679)
Contribution deficiency (excess)	\$ 0	0	0
Covered payroll*	\$ 743,526	711,952	675,627
Contributions as a percentage of covered payroll	% 6.66%	6.59%	6.46%

* This schedule will be 10 years as information is available

OTHER POST EMPLOYMENT BENEFIT FUNDS

Schedule of Contributions from the Employer and Other Contributing Entities

<u>FIRE HEALTHCARE FUND</u>			<u>POLICE HEALTHCARE FUND</u>	
<u>Year</u>	Annual Required <u>Contribution</u>	Percentage <u>Contributed</u>	Annual Required <u>Contribution</u>	Percentage <u>Contributed</u>
2017	\$ 2,305,267	10%	\$ 1,729,166	22%
2016	563,901	232%	880,314	40%
2015	537,048	175%	838,394	149%
2014	1,242,997	4%	1,128,913	5%
2013	1,185,523	4%	1,075,155	5%
2012	1,346,074	4%	1,093,904	5%

Schedules of Funding Progress

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

<u>FIRE HEALTHCARE FUND</u>						
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b - a) / c)
1/1/2017	\$ 18,991,000	\$ 43,749,000	\$ 24,758,000	43.00%	N/A	N/A
12/31/2014	18,761,000	35,200,000	16,439,000	53.30%	286,646	5734.95%
12/31/2012	21,357,000	44,494,000	23,137,000	48.00%	622,642	3715.94%

<u>POLICE HEALTHCARE FUND</u>						
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b - a) / c)
1/1/2017	\$ 12,301,000	\$ 30,872,000	\$ 18,571,000	40.00%	N/A	N/A
12/31/2014	11,970,000	26,092,000	14,122,000	45.88%	239,221	5903.33%
12/31/2012	13,715,000	32,602,000	18,887,000	42.10%	362,732	5206.87%



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City of Everett
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2017

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Passed through to Subrecipients	Note
				From Pass- Through Awards	From Direct Awards	Total		
FOREST SERVICE, AGRICULTURE, DEPARTMENT OF (via WA DEPT OF NATURAL RESOURCES)	Cooperative Forestry Assistance	10.664	N/A	500	-	500	-	
CDBG - Entitlement Grants Cluster								
ASSISTANT SECRETARY FOR COMMUNITY PLANNING AND DEVELOPMENT, HOUSING AND URBAN DEVELOPMENT, DEPARTMENT OF	Community Development Block Grants/Entitlement Grants	14.218	N/A	-	129,412	129,412	-	
ASSISTANT SECRETARY FOR COMMUNITY PLANNING AND DEVELOPMENT, HOUSING AND URBAN DEVELOPMENT, DEPARTMENT OF	Community Development Block Grants/Entitlement Grants	14.218	Program Income	-	415,104	415,104	-	3a
ASSISTANT SECRETARY FOR COMMUNITY PLANNING AND DEVELOPMENT, HOUSING AND URBAN DEVELOPMENT, DEPARTMENT OF	Community Development Block Grants/Entitlement Grants	14.218	N/A	-	475,866	475,866	322,047	5
ASSISTANT SECRETARY FOR COMMUNITY PLANNING AND DEVELOPMENT, HOUSING AND URBAN DEVELOPMENT, DEPARTMENT OF	Community Development Block Grants/Entitlement Grants	14.218	Program Income	-	33	33	-	3a
Total CDBG - Entitlement Grants Cluster:				-	1,020,415	1,020,415	322,047	
ASSISTANT SECRETARY FOR COMMUNITY PLANNING AND DEVELOPMENT, HOUSING AND URBAN DEVELOPMENT, DEPARTMENT OF (via SNOHOMISH COUNTY HUMAN SVC)	Home Investment Partnerships Program	14.239	HCS-16-42-1601- 198	607,364	-	607,364	35,000	5
ASSISTANT SECRETARY FOR COMMUNITY PLANNING AND DEVELOPMENT, HOUSING AND URBAN DEVELOPMENT, DEPARTMENT OF (via SNOHOMISH COUNTY HUMAN SVC)	Home Investment Partnerships Program	14.239	Program Income	225,757	-	225,757	-	3a
Total CFDA 14.239:				833,121	-	833,121	35,000	
NATIONAL PARK SERVICE, INTERIOR, DEPARTMENT OF THE (via WA DEPT OF ARCHAEOLOGY AND HISTORIC PRESERVATION)	Historic Preservation Fund Grants-In-Aid	15.904	FY17-61017-004	16,000	-	16,000	-	
OFFICE ON VIOLENCE AGAINST WOMEN (OVW), JUSTICE, DEPARTMENT OF (via WA DEPT OF COMMERCE)	Violence Against Women Formula Grants	16.588	F16-31103-035	31,345	-	31,345	20,851	
OFFICE OF JUSTICE PROGRAMS, JUSTICE, DEPARTMENT OF	Edward Byrne Memorial Justice Assistance Grant Program	16.738	2014-DJ-BX-0195	-	10,424	10,424	-	
OFFICE OF JUSTICE PROGRAMS, JUSTICE, DEPARTMENT OF	Edward Byrne Memorial Justice Assistance Grant Program	16.738	Program Income	-	85	85	-	3b
OFFICE OF JUSTICE PROGRAMS, JUSTICE, DEPARTMENT OF	Edward Byrne Memorial Justice Assistance Grant Program	16.738	2015-DJ-BX-0546	-	4,796	4,796	-	
OFFICE OF JUSTICE PROGRAMS, JUSTICE, DEPARTMENT OF	Edward Byrne Memorial Justice Assistance Grant Program	16.738	Program Income	-	6	6	-	3b
OFFICE OF JUSTICE PROGRAMS, JUSTICE, DEPARTMENT OF	Edward Byrne Memorial Justice Assistance Grant Program	16.738	2016-DJ-BX-0117	-	13,538	13,538	-	
OFFICE OF JUSTICE PROGRAMS, JUSTICE, DEPARTMENT OF	Edward Byrne Memorial Justice Assistance Grant Program	16.738	Program Income	-	93	93	-	3b
Total CFDA 16.738:				-	28,942	28,942	-	

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

Highway Planning and Construction Cluster							
FEDERAL HIGHWAY ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF (via WA DEPT OF TRANSPORTATION)	Highway Planning and Construction	20.205	STPD-BRM-2715(009)	79,075	-	79,075	-
FEDERAL HIGHWAY ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF (via WA DEPT OF TRANSPORTATION)	Highway Planning and Construction	20.205	STPUL-9931(012)	849,451	-	849,451	-
FEDERAL HIGHWAY ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF (via WA DEPT OF TRANSPORTATION)	Highway Planning and Construction	20.205	HSIP-000S(330)	38,819	-	38,819	-
FEDERAL HIGHWAY ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF (via WA DEPT OF TRANSPORTATION)	Highway Planning and Construction	20.205	HSIP000S(331)	1,825	-	1,825	-
FEDERAL HIGHWAY ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF (via WA DEPT OF TRANSPORTATION)	Highway Planning and Construction	20.205	SRTS-0420(021)	32,167	-	32,167	4a
FEDERAL HIGHWAY ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF (via WA DEPT OF TRANSPORTATION)	Highway Planning and Construction	20.205	HSIP-2715(010)	17,045	-	17,045	-
FEDERAL HIGHWAY ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF (via WA DEPT OF TRANSPORTATION)	Highway Planning and Construction	20.205	STPUL-9931(015)	12,776	-	12,776	4a
FEDERAL HIGHWAY ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF (via WA DEPT OF TRANSPORTATION)	Highway Planning and Construction	20.205	HSIP-0099(138)	18,234	-	18,234	-
FEDERAL HIGHWAY ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF (via WA DEPT OF TRANSPORTATION)	Highway Planning and Construction	20.205	STPUL-CM-0420(022)	330,029	-	330,029	-
FEDERAL HIGHWAY ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF (via WA DEPT OF TRANSPORTATION)	Highway Planning and Construction	20.205	HSIP-000S(439)	647,043	-	647,043	-
FEDERAL HIGHWAY ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF (via WA DEPT OF TRANSPORTATION)	Highway Planning and Construction	20.205	CM-STPE-0420(018)	3,622	-	3,622	-
FEDERAL HIGHWAY ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF (via WA DEPT OF TRANSPORTATION)	Highway Planning and Construction	20.205	GCB2048	68,631	-	68,631	-
FEDERAL HIGHWAY ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF (via WA DEPT OF TRANSPORTATION)	Highway Planning and Construction	20.205	GCB2049	96,603	-	96,603	-
Total Highway Planning and Construction Cluster:				2,195,320	-	2,195,320	-
Federal Transit Cluster							
FEDERAL TRANSIT ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF	Federal Transit Formula Grants	20.507	WA-2017-027-00	-	3,304	3,304	-
FEDERAL TRANSIT ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF	Federal Transit Formula Grants	20.507	WA-2018-003-00	-	32,884	32,884	-
FEDERAL TRANSIT ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF	Federal Transit Formula Grants	20.507	WA-2017-017-00	-	605,009	605,009	-
FEDERAL TRANSIT ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF	Federal Transit Formula Grants	20.507	WA-90-X572-01	-	410,433	410,433	-
Total CFDA 20.507:				-	1,051,630	1,051,630	-
FEDERAL TRANSIT ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF	Bus and Bus Facilities Formula Program	20.526	WA-2017-021-00	-	4,028	4,028	-
Total Federal Transit Cluster:				-	1,055,658	1,055,658	-

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

Highway Safety Cluster							
NATIONAL HIGHWAY TRAFFIC SAFETY ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF (via WA TRAFFIC SAFETY COMMISSION)	State and Community Highway Safety	20.600	Section 402	1,020	-	1,020	-
NATIONAL HIGHWAY TRAFFIC SAFETY ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF (via WA TRAFFIC SAFETY COMMISSION)	State and Community Highway Safety	20.600	Section 402	1,282	-	1,282	-
NATIONAL HIGHWAY TRAFFIC SAFETY ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF (via WA TRAFFIC SAFETY COMMISSION)	State and Community Highway Safety	20.600	Section 402	508	-	508	-
Total CFDA 20.600:				2,810	-	2,810	-
NATIONAL HIGHWAY TRAFFIC SAFETY ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF (via WA TRAFFIC SAFETY COMMISSION)	National Priority Safety Programs	20.616	Section 405d	1,828	-	1,828	-
Total Highway Safety Cluster:				4,638	-	4,638	-
ENVIRONMENTAL PROTECTION AGENCY, None;	Brownfields Assessment and Cleanup Cooperative Agreements	66.818	BF-00J79301-0	-	27,204	27,204	- 4b
EXECUTIVE OFFICE OF THE PRESIDENT, None; (via SNOHOMISH COUNTY SHERIFF)	High Intensity Drug Trafficking Areas Program	95.001	F97-374-017	58,707	-	58,707	-
U.S. COAST GUARD, HOMELAND SECURITY, DEPARTMENT OF (via WA PARKS AND RECREATION COMMISSION)	Boating Safety Financial Assistance	97.012	3317FAS170153	23,310	-	23,310	-
FEDERAL EMERGENCY MANAGEMENT AGENCY, HOMELAND SECURITY, DEPARTMENT OF (via WA MILITARY DEPARTMENT)	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	D12-141	250	-	250	-
FEDERAL EMERGENCY MANAGEMENT AGENCY, HOMELAND SECURITY, DEPARTMENT OF (via WA MILITARY DEPARTMENT)	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	D16-640	228,609	-	228,609	-
Total CFDA 97.036:				228,859	-	228,859	-
FEDERAL EMERGENCY MANAGEMENT AGENCY, HOMELAND SECURITY, DEPARTMENT OF (via WA MILITARY DEPARTMENT)	Hazard Mitigation Grant	97.039	D15-002	463,859	-	463,859	-
FEDERAL EMERGENCY MANAGEMENT AGENCY, HOMELAND SECURITY, DEPARTMENT OF (via WA MILITARY DEPARTMENT)	Emergency Management Performance Grants	97.042	E17-148	60,395	-	60,395	-
FEDERAL EMERGENCY MANAGEMENT AGENCY, HOMELAND SECURITY, DEPARTMENT OF (via WA MILITARY DEPARTMENT)	Pre-Disaster Mitigation	97.047	E17-102	36,126	-	36,126	-
FEDERAL EMERGENCY MANAGEMENT AGENCY, HOMELAND SECURITY, DEPARTMENT OF (via CITY OF SEATTLE)	Port Security Grant Program	97.056	EMW-2015-PJ-000230	858	-	858	-
FEDERAL EMERGENCY MANAGEMENT AGENCY, HOMELAND SECURITY, DEPARTMENT OF (via WA MILITARY DEPARTMENT/SNOHOMISH COUNTY)	Homeland Security Grant Program	97.067	E17-059	24,443	-	24,443	-
FEDERAL EMERGENCY MANAGEMENT AGENCY, HOMELAND SECURITY, DEPARTMENT OF (via CITY OF SEATTLE)	Homeland Security Grant Program	97.067	EMW-2015-SS-00013-S01	13,436	-	13,436	-
FEDERAL EMERGENCY MANAGEMENT AGENCY, HOMELAND SECURITY, DEPARTMENT OF (via WA MILITARY DEPARTMENT/CITY OF SEATTLE)	Homeland Security Grant Program	97.067	UASIFFY2016	20,817	-	20,817	- 6
FEDERAL EMERGENCY MANAGEMENT AGENCY, HOMELAND SECURITY, DEPARTMENT OF (via WA MILITARY DEPARTMENT/SNOHOMISH COUNTY)	Homeland Security Grant Program	97.067	E16-051-Everett	3,200	-	3,200	-
Total CFDA 97.067:				61,896	-	61,896	-
Total Federal Awards Expended:				4,014,934	2,132,219	6,147,153	377,898

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

City of Everett
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2017

NOTE 1 - BASIS OF ACCOUNTING

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

NOTE 2 - PROGRAM COSTS

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

NOTE 3 - PROGRAM INCOME

- a) The City has a revolving loan program for low-income housing. Under this federal program, repayments to the City are considered program revenues (income) and loans of such funds to eligible recipients are considered expenditures. The amount of loan funds disbursed to program participants for the year was \$640,894.00 and is presented in this schedule. The amount of principal and interest received in loan repayments for the year was \$944,136.91.
- b) The City earns investment interest on unexpended Edward Byrne Memorial Grant funds. Interest revenue (program income) for the year is presented in this schedule.

NOTE 4 – AWARD FOR PRIOR YEAR EXPENDITURE

- a) The City received additional award from the Grantor after the program was completed. The amount includes prior year expenditure that was not included in 2016's SEFA.
- b) The expenditure includes \$10,319.30 of 2015 and 2016 expenditures. This amount was not included in the prior year's SEFA.

NOTE 5 – PASS THROUGH TO SUBRECIPIENTS

The City awarded \$322,047 from the Community Development Block Grant program to non-profit agencies in 2017. The City also awarded \$35,000 to non-profit agencies for first time home buyer down payment assistance program.

NOTE 6 – NONCASH AWARDS - EQUIPMENT

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

NOTE 7 – INDIRECT COST RATE

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



CORRECTIVE ACTION PLAN FOR FINDINGS REPORTED UNDER UNIFORM GUIDANCE

Everett Public Facilities District January 1, 2017 through December 31, 2017

This schedule presents the corrective action planned by the Everett Public Facilities District, a component unit of the City, 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).

Finding ref number: 2017-001	Finding caption: The Everett Public Facilities District, a component unit of the City, had internal controls over financial statement preparation that were not adequate to ensure accurate reporting.
Name, address, and telephone of District contact person: Rich Stewart 2000 Hewitt Avenue, Suite 200 Everett, WA 98201 425-322-2600	
Corrective action the auditee plans to take in response to the finding: <i>The Everett Public Facilities District (PFD) was formed in 2001 to construct and operate the Special Events Center. The PFD is included in the City's reporting entity as a discretely presented component unit because of the financial accountability relationship. The PFD is governed by a five-member Board of Directors appointed by the Everett City Council. It is the responsibility of the PFD's management to ensure the financial statements are fairly presented in accordance with the generally accepted accounting principles. The City will consult with the PFD to ensure that the internal control procedures are adequate for proper financial reporting.</i>	
Anticipated date to complete the corrective action: 9/30/2018	

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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