



# Washington State Auditor's Office

Independence • Respect • Integrity

## Financial Statements and Federal Single Audit Report

### City of Federal Way

King County

For the period January 1, 2014 through December 31, 2014

Published August 31, 2015

Report No. 1014872





## Washington State Auditor's Office

August 31, 2015

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

### Report on Financial Statements and Federal Single Audit

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

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

Sincerely,

JAN M. JUTTE, CPA, CGFM  
ACTING STATE AUDITOR  
OLYMPIA, WA

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## FEDERAL SUMMARY

### City of Federal Way King County January 1, 2014 through December 31, 2014

The results of our audit of the City of Federal Way are summarized below in accordance with U.S. Office of Management and Budget Circular A-133.

#### Financial Statements

An unmodified opinion was issued on the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information.

##### Internal Control Over Financial Reporting:

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

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

#### Federal Awards

##### Internal Control Over Major Programs:

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

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

We reported no findings that are required to be disclosed under section 510(a) of OMB Circular A-133.

## Identification of Major Programs:

The following was a major program during the period under audit:

<u>CFDA No.</u>	<u>Program Title</u>
20.205	Highway Planning and Construction Cluster - Highway Planning and Construction

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by OMB Circular A-133, was \$300,000.

The City qualified as a low-risk auditee under OMB Circular A-133.

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

**City of Federal Way  
King County  
January 1, 2014 through December 31, 2014**

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Federal Way, King County, Washington, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 26, 2015.

**INTERNAL CONTROL OVER FINANCIAL REPORTING**

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

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

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

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

## COMPLIANCE AND OTHER MATTERS

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

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

## PURPOSE OF THIS REPORT

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



JAN M. JUTTE, CPA, CGFM  
ACTING STATE AUDITOR  
OLYMPIA, WA

June 26, 2015

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR  
EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL  
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB  
CIRCULAR A-133**

**City of Federal Way  
King County  
January 1, 2014 through December 31, 2014**

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

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

We have audited the compliance of the City of Federal Way, King County, Washington, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2014. The City's major federal programs are identified in the accompanying Federal Summary.

**Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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, 2014.

## **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 OMB Circular A-133, 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 OMB Circular A-133. 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.



JAN M. JUTTE, CPA, CGFM  
ACTING STATE AUDITOR  
OLYMPIA, WA

July 29, 2015

# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

## City of Federal Way King County January 1, 2014 through December 31, 2014

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

### REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Federal Way, King County, Washington, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed on page 14.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

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

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

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Federal Way, as of December 31, 2014, and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparison for the General, Street and Utility Tax funds, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 15 through 25 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 U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. This schedule is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated June 26, 2015 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.



JAN M. JUTTE, CPA, CGFM  
ACTING STATE AUDITOR  
OLYMPIA, WA

June 26, 2015

## **FINANCIAL SECTION**

**City of Federal Way  
King County  
January 1, 2014 through December 31, 2014**

### **REQUIRED SUPPLEMENTARY INFORMATION**

Management's Discussion and Analysis – 2014

### **BASIC FINANCIAL STATEMENTS**

Statement of Net Position – 2014

Statement of Activities – 2014

Balance Sheet (with Reconciliation to Statement of Net Position) – Governmental Funds  
– 2014

Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental  
Funds – 2014

Statement of Revenues, Expenditures and Changes in Fund Balance Budget to Actual –  
General Fund - 2014

Statement of Revenues, Expenditures and Changes in Fund Balance Budget to Actual –  
Street Fund - 2014

Statement of Revenues, Expenditures and Changes in Fund Balance Budget to Actual –  
Utility Tax Fund - 2014

Statement of Net Position – Proprietary Funds – 2014

Statement of Revenues, Expenses and Changes in Fund Net Position – Proprietary Funds  
– 2014

Statement of Cash Flows – Proprietary Funds – 2014

Notes to Financial Statements – 2014

### **SUPPLEMENTARY AND OTHER INFORMATION**

Schedule of Expenditures of Federal Awards and Notes – 2014

## MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Federal Way, we offer readers of our annual financial report a narrative overview, and an analysis of the financial activities of the City of Federal Way for the fiscal year ended December 31, 2014. We encourage readers to consider the information in conjunction with the preceding letter of transmittal, the financial statements and notes to the financial statements that follow.

### FINANCIAL HIGHLIGHTS

- The total assets of the City of Federal Way exceeded its liabilities at December 31, 2014 by \$598.8 million (Net Position.) Capital Assets (net of depreciation and related debt) account for 86% of this amount with a value of \$516.4 million. Of the remaining net position of \$82.5 million or 14%, \$65.1 million may be used to meet the government's ongoing obligations to citizens and creditors, without legal restriction while the \$17.4 million are restricted for specific use.
- The City's total net position increased by \$1.6 million, or less than 1% over 2013 as referenced on page number 18. Governmental activities increased by \$1.3 million or less than 1% while business-type activities increased by \$0.3 million. There was also a prior period adjustment of \$4.9 million as noted in note 15.
- Net investment in capital assets governmental activities decreased by \$2.6 million and government-wide unrestricted net position increased by \$181 thousand respectively over 2013 as referenced on page number 15.
- Restricted Net Position decreased by \$5.2 million or 29.9% and is mainly for funding of capital projects and debt service.
- Governmental fund balances at year-end were \$52.8 million, \$2.8 million or 6% increase over the prior year. Of this amount, a total of \$12.5 million, or 24% of the governmental fund balance is unrestricted and available to fund ongoing activities. The remaining \$40.3 million is earmarked for debt service, paths & trails reserve, hotel/motel lodging tax, police special funds, petty cash/change funds, court trust fund, advance travel, strategic opportunities reserve and capital projects.
- Unrestricted fund balance in the general fund was \$12.5 million, which decreased by \$3.5 million or 28% from the prior year.
- Debt increased by \$7.0 million during the current fiscal year. General obligation debt decreased by \$1.0 million while public works trust fund loan decreased by \$0.2 million. The City acquired the Target property at 2141 S 314<sup>th</sup> Street via 3-year bank loan of \$8.2 million at an annual rate of 1.51%.

### OVERVIEW OF FINANCIAL STATEMENTS

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

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

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

### Government-wide Financial Statements

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

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

Both of the government-wide financial statements distinguish functions of the City of Federal Way that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City of Federal Way include law enforcement and public safety, construction and maintenance of streets, building inspection, municipal court services, jail services, community planning and development services, parks and recreation facilities, other community services and general administration. The business-type activities of the City include surface water management and the control and operation of Dumas Bay Centre, a multi-use facility that offers business and retreat accommodations, recreation and cultural arts classes and a performing arts facility.

The City has no separately identified component units included in the government-wide financial statements. The City has reported its investment in two governmental joint ventures: Valley Communications Center and South Correctional Entity (SCORE). Descriptions of these joint ventures are found in note 13 of the notes to the financial statements.

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

### **Fund Financial Statements**

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

### **Governmental Funds**

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

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

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

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



## Proprietary Funds

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

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

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

## Notes to the Financial Statements

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

## Other Information

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

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

### CONDENSED STATEMENT OF NET POSITION As of December 31, 2014 and 2013

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Current and other assets	\$ 95,147,927	\$91,533,341	\$ 7,787,827	\$7,182,887	\$ 102,935,754	\$ 98,716,228
Capital assets and CIP, net of accum. depreciation	486,490,172	481,287,121	50,779,826	51,283,047	537,269,998	532,570,168
Total assets	581,638,099	572,820,462	58,567,653	58,465,934	640,205,752	631,286,396
Long-term liabilities	36,932,078	29,002,726	565,483	734,681	37,497,561	29,737,407
Other liabilities	3,399,540	3,764,800	463,227	513,334	3,862,767	4,278,134
Total liabilities	40,331,618	32,767,526	1,028,710	1,248,015	41,360,328	34,015,541
Net position:						
Net investment in:						
capital assets	466,078,036	468,628,412	50,299,229	50,620,091	516,377,265	519,248,503
Restricted	17,391,272	22,594,884	20,311	20,559	17,411,583	22,615,443
Unrestricted	57,837,173	48,829,641	7,219,403	6,577,269	65,056,576	55,406,910
Total net position	\$ 541,306,481	\$ 540,052,936	\$ 57,538,943	\$ 57,217,919	\$ 598,845,424	\$ 597,270,855

## Analysis of Net Position

Total net position of the primary government of \$598.8 million at December 31, 2014 increased \$1.6 million or less than 1.0% compared to December 31, 2013. The increase is mainly due to governmental type activities increase of \$1.3 million and business-type activities increase of \$0.3 million.

The largest component of the City's net position, 86% or \$516.4 million, is net investment in capital assets. These capital assets such as land, streets, trails, parks, police vehicles, and parks equipment are used to provide services to the citizens. Consequently, these assets are not available to sell and convert to cash for future spending.

Approximately 2.6% or \$14.0 million of the total net position of the city are restricted for use on capital projects or are earmarked for current approved capital projects. Some of the major capital projects the funds are being used for include the downtown park, trail and pedestrian access improvements, SR99 HOV Lanes Phase 5, S 356<sup>th</sup> St: SR99 – SR 161, S 304<sup>th</sup> St at 28<sup>th</sup> Ave S, and Performing Arts and Conference Center. The City attempts to fund capital construction projects on a pay-as-you-go basis, aggressively pursuing grant funding and cost sharing with developers to construct large projects in the City that impact the economy and transportation system.

The remaining balance of restricted net position of \$3.4 million is divided among restrictions for: \$0.13 million for police special funds, and court trust, \$0.02 million for steel lake and north lake management districts, \$0.03 million for prepaid insurance/debt and flex plan, \$0.44 million for peg and franchise fees for educational and governmental access services, \$0.40 million for lodging tax, \$0.20 million for paths and trails, and \$2.14 million for debt service.

The unrestricted business-type activities portion of \$7.2 million, \$7.0 million can only be spent on surface water management and the remaining \$0.18 million on improvements to Dumas Bay Centre and Knutzen Family Theatre. Maintenance of catch basins, pump stations, storm drain flushing, and other capital construction projects such as West Branch Lakota Creek Restoration are examples of utility activities.

Other functions of the City may access the remaining \$57.8 million in unrestricted net position to meet ongoing obligation to citizens and creditors. Examples of other City obligations which net position may be used for are public safety, economic development, parks maintenance, ongoing street maintenance, and committed funds for capital projects.

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

### **Governmental Activities:**

Current and other assets increased by \$3.6 million or 3.9% primarily due to an increase of \$1.9 million in investment in joint venture related to the SCORE jail facility (see Note 13). In addition, cash & cash equivalents increased by \$2.4 million primarily due to an increase in sales tax revenue, and charges for services revenue from community development.

Capitals assets and CIP, net of accumulated depreciation increased by \$5.2 million or 1.1% primarily due to purchase of Target property land for downtown redevelopment of \$8.2 million, construction in progress of Performing Arts & Event Center of \$1.6 million, \$1.0 million for developer contributed infrastructure assets and Brooklake Center, and depreciation increase due to prior period adjustment on infrastructure of \$4.9 million and current year depreciation. (see Note 7)

Long-term liabilities increased by \$7.9 million or 27.3% primarily due to \$8.2 million general obligation bond issued for Target Property purchase, and paying down the balance on GO Bond, SCORE facility, and Valley Communications. (see Note 10)

Other liabilities decreased by \$0.365 million or 9.7% primarily due to having less December purchases in the Transportation Fund than the prior year, therefore decreasing vouchers payable.

Net investments in capital assets decreased by \$2.55 million or less than 1.0% primarily due primarily due to an increase in capital assets and CIP, net of accumulated depreciation and an increase in long-term liabilities as described above, therefore decreasing net investments in capital assets.

Restricted net position represents amounts that must be used in accordance with external restrictions, and decreased by \$5.2 million or 29.9% from the prior year primarily due to moving committed fund balance that was in restricted net position in 2013 for capital assets to unrestricted net position in the government-wide financial statements. Additions to the restricted net position balance include the performing arts & event center balance, and the downtown park project balance in the Parks capital fund. Additionally there are externally restricted balances for special contracts/studies, hotel/motel lodging tax, and paths and trails reserve.

**Business-Type Activities:**

Current and other assets increased by \$0.6 million or 8.4% primarily due to an increase in Surface Water Management operations cash and other equivalents of \$0.46 million from revenues exceeding operating expenditures due to unfilled positions, and an increase in Surface Water Management due from other governments of \$0.19 million. The remainder is primarily due to a reduction in receivables for surface water management fees, and a reduction in Dumas Bay Centre cash due to additional operating expenses from food and operating costs in the center.

Capitals assets and CIP, net of accumulated depreciation decreased by \$0.5 million or 1.0% primarily due to current year depreciation on Surface Water Management and Dumas Bay Centre assets. (see Note 7)

Long-term liabilities decreased by \$0.17 million or 23.0% due to paying down of Public works trust fund loans by \$0.18 million, and an increase in compensate absences payable of \$0.01 million. (See Note 10)

Net investments in capital assets decreased \$0.32 million or less than 1.0% primarily due to current year depreciation on Surface Water Management and Dumas Bay Centre assets, and low outstanding balance in Public works trust fund loan as described above.

Unrestricted net position increased by \$0.6 million or 9.8% primarily due to the increase in current and other assets and the decrease in other liabilities as described above.

**CHANGES IN NET POSITION**  
**For the Years Ended December 31, 2014 and 2013**

	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
Revenues:						
Programs revenues:						
Charges for services	\$ 14,402,062	\$ 12,515,733	\$ 4,174,613	\$ 4,096,751	\$ 18,576,675	\$ 16,612,484
Operating grants & contrib.	5,410,098	6,007,682	607,608	774,436	6,017,706	6,782,118
Capital grants & contrib.	5,632,549	3,892,651	-	-	5,632,549	3,892,651
General revenues:						
Property taxes	10,349,906	10,152,114	-	-	10,349,906	10,152,114
Sales tax	12,173,281	11,346,338	-	-	12,173,281	11,346,338
Local criminal justice sales tax	2,138,406	1,992,667	-	-	2,138,406	1,992,667
Utility tax	12,028,878	12,584,293	-	-	12,028,878	12,584,293
Real estate excise tax	2,062,722	2,034,033	-	-	2,062,722	2,034,033
Other taxes	414,589	393,524	-	-	414,589	393,524
Other	1,145,798	868,261	22,507	13,000	1,168,306	881,261
Total Revenue	65,758,290	61,787,296	4,804,728	4,884,187	70,563,018	66,671,483
Expenses:						
General government	4,633,942	4,575,614	-	-	4,633,942	4,575,614
Security of persons & property	29,703,386	27,894,695	-	-	29,703,386	27,894,695
Transportation	11,434,659	9,675,727	-	-	11,434,659	9,675,727
Physical environment	443,127	490,916	-	-	443,127	490,916
Economic environment	2,785,807	2,191,487	-	-	2,785,807	2,191,487
Health and human services	1,056,802	1,683,449	-	-	1,056,802	1,683,449
Culture and recreation	8,376,205	8,418,920	-	-	8,376,205	8,418,920
Interest on long-term debt	1,010,406	1,779,833	-	-	1,010,406	1,779,833
Surface Water Management	-	-	3,653,999	3,234,742	3,653,999	3,234,742
Dumas Bay Centre	-	-	945,705	844,623	945,705	844,623
Total Expenses	59,444,335	56,710,641	4,599,703	4,079,365	64,044,038	60,790,006
Change in net position before transfers	6,313,955	5,076,655	205,025	804,822	6,518,979	5,881,477
Transfers	(116,000)	(137,419)	116,000	137,419	-	-
Change in net position	6,197,955	4,939,236	321,025	942,241	6,518,980	5,881,477
Net position - beginning	540,052,936	538,472,176	57,217,919	56,275,678	597,270,854	594,747,854
Prior period adjustment Note 15	(4,944,409)	(3,358,477)	-	-	(4,944,409)	(3,358,477)
Adjusted net position - beginning	535,108,526	535,113,699	57,217,919	56,275,678	592,326,445	591,389,377
Net position - ending	\$ 541,306,481	\$ 540,052,936	\$ 57,538,943	\$ 57,217,919	\$ 598,845,424	\$ 597,270,855

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

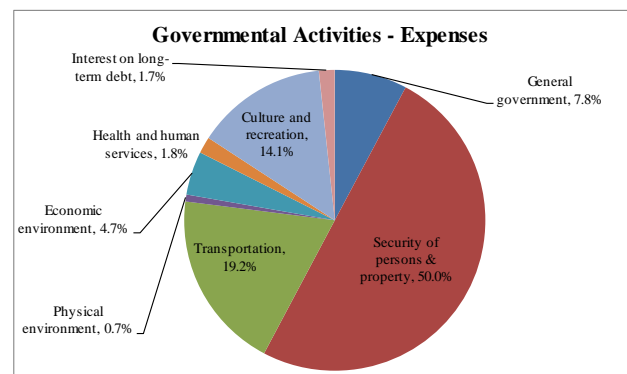
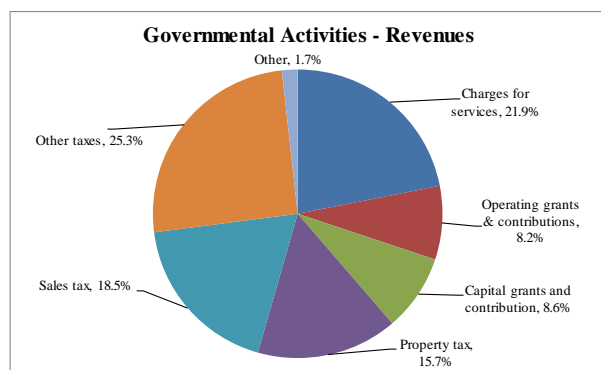
Total government-wide revenues of the primary government increased by \$3.9 million or 5.8% and total expenses increased by \$3.3 million or 5.4% from the prior years. These changes are discussed in more detail below.

### **Governmental Activities:**

Governmental activities contributed \$6.2 million or 95% of the total change in net position of \$6.5 million. The prior year change in net position was \$4.9 million. The primary change compared to 2013 is due to the following revenues, and expenses described below.

Total revenues for governmental activities increased \$4.0 million or 6.4%. The increase is primarily due to an increase in sales tax of \$0.83 million, capital grants and contributions related to transportation improvement projects of \$1.7 million, charges for services related to transportation impact fees for development of City roads of \$1.1 million, and charges for services related to building development expedited plan review and plan checking fees of \$0.24 million.

Total expenses for governmental activities increased \$2.7 million or 4.8%. The net increase is primarily due to increases in the following expense categories: A \$1.8 million increase in “Security of persons & property” primarily due to \$1.5 million increase in salaries and wages related to adding a Police Officer and Police Records Administrator, unfilled Police officer vacancies being filled, health insurance cost increases, and an increase in overtime due to major events in 2014, \$0.13 million increase in operating supplies from backorder of ammunition, and \$0.20 million increase in SCORE and Valleycomm operations. A \$1.8 million increase in “Transportation” primarily due to \$0.63 million in Street operations related to maintenance of City roads and \$1.3 million depreciation expense increase due to adding additional assets, as well as capturing depreciation expense related to assets in Note 15 prior period adjustment. A \$0.59 million increase in “Economic environment” primarily due to adding 4.0 FTE to the Community Development Department, and additional consulting for plans review. A \$0.77 million decrease in “interest on long-term debt” primarily due to additional interest payments on 2003 debt refunding.

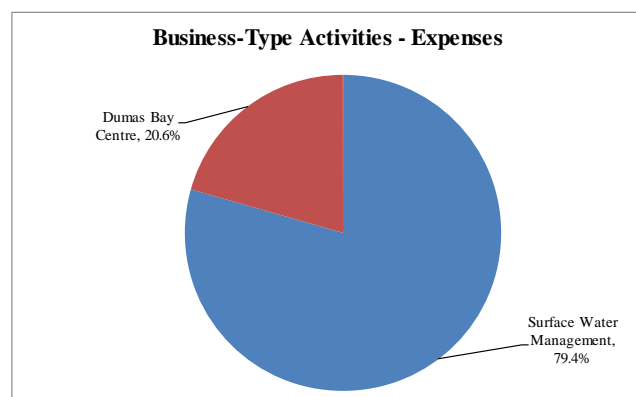
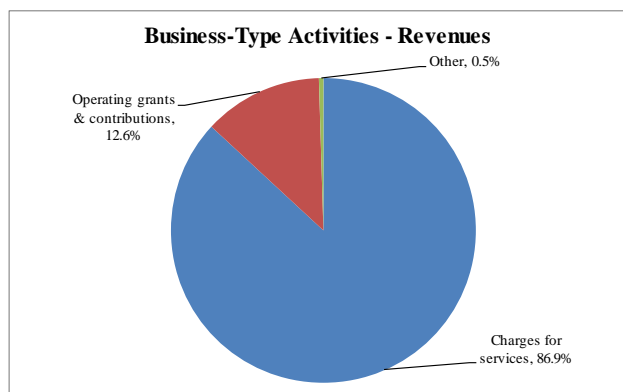


### **Business-Type Activities:**

Business-type activities of the City’s Surface Water Management system and Dumas Bay Centre increased the City’s net position by \$0.3 million, compared to prior year net position of \$0.9 million. The primary change compared to 2013 is due to the following revenues and expenses described below.

Total revenues decreased by \$0.08 million or 1.6% from 2013. Attributing factors to the decrease in revenues are as follows: A decrease in grant revenue for Surface Water Management capital projects of \$0.17 million, an increase for Dumas Bay Centre revenues of \$0.02 million for overnight rentals, and additional Surface Water Management fees of \$0.03 million.

Total expenses increase of \$0.52 million or 12.8% from 2013. This is primarily due to an increase of \$0.10 million in goods and services for the operation of Dumas Bay Centre, and personnel costs increase of \$0.15 million in Surface Water Management due to the additional reclass of expenditures to construction in progress in 2013 over 2014. The increase in services and charges of \$0.09 million is due to the additional reclass of expenditures to construction in progress in 2013 over 2014, and additional repairs and maintenance for Surface Water Management operations. The increase of \$0.07 million in intergovernmental services is attributed to additional permit expenditures to Department of Ecology for water quality.



## FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

### Governmental funds

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

As of the end of 2014, the City's governmental funds had a combined ending fund balance of \$52.8 million which increased by \$2.8 million from the prior year. Approximately 24% or \$12.5 million of this amount constitutes unrestricted General Fund balance, which is available for spending at the City Council's discretion. The remainder of the fund balance is restricted to indicate that it is not available for new spending because it has already been committed for debt service, paths & trails reserve, hotel/motel lodging tax, police special funds, petty cash/change funds, court trust fund, advance travel, and capital projects

The General Fund is the chief operating fund of the City. Total fund balance decreased by \$0.01 million or 0.6% due to the increase in expenditures offset by an increase to various revenues described below. The decrease in fund balance is primarily due to \$0.5 million transfer out for Capital Project Reserve Fund, an \$1.8 million increase in expenditures, therefore reducing fund balance for salaries and wages related to adding a Police Officer and Police Records Administrator, unfilled Police officer vacancies being filled, health insurance cost increases, and an increase in overtime due to major events in 2014; a \$0.1 million increase in operating supplies from backorder of ammunition, and \$0.2 million increase in SCORE and Valleycomm operations. Additionally a \$0.6 million increase in expenditures is due to adding 4.0 FTE's to the Community Development Department, and additional consulting for plans review is also a factor in decreasing the fund balance. To offset the decrease in fund balance there was a transfer in of \$2.0 million from risk management fund for committed strategic opportunities reserve, an increase in sales tax of \$0.8 million and charges for services related to building development expedited plan review and plan checking fees of \$0.2 million.

The Street Fund has a total fund balance of \$0.6 million which increased by \$0.5 million from 2013 due to transferring in \$0.5 million to maintain an emergency reserve fund for snow and ice removal.

The Utility Tax fund was established to account for the utility tax receipts which include 6% collected by State statute for capital, debt, and other maintenance & operations as determined by Council and the remaining 1.75% is for Voter Approved enhanced Police and Community Safety in 2007. Total fund balance decreased \$0.1 million or 4% from 2013 due mainly to \$0.6 million less tax revenue received and more being transferred out for Street Fund operations.

The Debt Service Fund has a total fund balance of \$0.07 million which decreased by \$5.2 million from 2013 due to creation of separate Real Estate Excise Tax Fund and separate Debt Service Fund.

The Downtown Redevelopment fund was established to accumulate resources and set aside funding for downtown projects. Overall, ending fund balance decreased by \$2.6 million. This is primarily due to a \$4.2 million transfer out to the Performing Arts & Event Center Fund and an increase in LIFT Sales tax revenue from the State of \$0.8 million.

The Transportation Fund is used to improve existing traffic signals, new signalization, major roadways and arterials involving the design and construction of new sections of streets, the widening of roadways to provide additional vehicle lanes, the installation of sidewalks and landscaping. The major source of revenue for this fund is grants from other agencies and contributions from other funds. Total ending fund balance decreased by \$5.0 million primarily due to transferring out \$4.4 million to the Real Estate Excise Tax Fund due to a project being completed and transferring out \$1.3 million to the Utility Tax Fund due to projects being completed.

The Performing Arts & Event Center Fund is being used for the building of the center. This is an added fund for 2014 and has a fund balance of \$8.4 million primarily due to transfers in of Utility Tax, Real Estate Excise Tax, and LIFT Sales tax revenue.

### **Proprietary funds**

The City of Federal Way's proprietary funds provide the same type of information found in the government-wide, but in more detail. Unrestricted net assets of the Surface Water Management Fund at the end of the year amounted to \$7.0 million, and those for Dumas Bay Centre amounted to \$0.2 million. The total changes in net position for both funds were \$0.5 million increase and \$0.2 million decrease, respectively. Other factors concerning the finances of these two funds have already been addressed in the discussion of the City of Federal Way's business-type activities.

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

The City of Federal Way budgets on a biennial basis with each budget beginning in an odd numbered year. Appropriations for operating funds are authorized for two years, but must be reviewed and reauthorized by the City Council in the middle of the biennial period. In 2014, the City made two budget adjustments. The following discussion is reflective only of the current year of the biennium.

The General Fund operating expenditure budget increased by \$4.0 million between the original adopted budget and the adjusted budget for 2014 fiscal year. The following is the major changes for the 2014 budget:

- Added \$0.88 million for new hires and 2.5 percent salary increase.
- Added \$0.10 million for termination pay.
- Added \$0.18 million for Health Care Premium increase.
- Added \$0.07 million for search for City Attorney and Economic Development Director.
- Added \$0.05 million for Nick and Derek project overtime.
- Added \$0.05 million for two new vehicles for Building Inspector and Plans Examiner.
- Added \$0.10 million for election fees.
- Added \$0.05 million for security improvement to Municipal Court.
- Added \$0.05 million for outside Legal Counsel Services.
- Added \$0.78 million for future and pending deductible to Risk Management.
- Added \$0.07 million for Permit System Upgrade.
- Added \$0.11 million for Building Abatement.
- Added \$0.08 million for comprehensive plan update.
- Added \$0.08 million for the City Center Redevelopment.
- Added \$0.30 million for Parks & Recreation for capital, temp help, wire theft, and cultural plan.
- Added \$0.12 million for Microsoft Enterprise Agreement and Additional Licenses.
- Added \$0.21 million for Police Grants.

Adjustments to revenues and other sources budget include: Adjustments to beginning balance of \$9.9 million; increase in liquor profits of \$0.15 million; increase in grants of \$0.55 million; increase in sales tax of \$0.82 million; increase of \$0.06 million for property taxes; increase of \$0.19 million for criminal justice sales tax; increase in franchise fees of \$0.06 million; increase of \$0.11 million for liquor excise tax; increase of \$0.13 million for state shared criminal justice for high crime; increased building permits of \$0.25 million; increased plan check fees of \$0.60 million and plumbing permit fees of \$0.04 million.

The General Fund ending fund balance of \$16.0 million is \$4.6 million over the projected \$11.4 million for 2014 year-end. Of the \$4.6 million, \$1.2 million is being earmarked for carry forward into 2015. The remaining \$3.4 million increase is considered one-time funds for 2016.

The \$4.6 million increase in ending fund balance is made up of \$2.7million in additional revenues/other sources and \$1.96 million in unspent expenses/other uses.



The \$2.7 million increase in revenues/other sources is primarily attributed to increases in property taxes of \$0.16 million; sales tax of \$0.56 million, criminal justice sales tax of \$0.23 million, gambling taxes of \$0.03 million, state shared revenue of \$0.19 million, Police contracted services fees of \$0.29 million, and community and economic development permits and fees of \$0.96 million.

The \$1.96 million unspent expenses/other uses are primarily attributable to savings found in: Jail services of \$0.16 million; Community & Economic Development of \$0.40 million; Parks & Recreation of \$0.25 million; Law of \$0.15 million; Human Resources/City Clerk of \$0.10 million; Municipal Court of \$0.02 million; Finance of \$0.04 million, City Council of \$0.03 million, and \$0.30 transfer out for self-insurance.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

The City of Federal Way's investment in capital assets for its governmental and business-type activities as of December 31, 2014 amounts to \$537 million (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, infrastructure, park facilities and construction in progress. For more details, please see Note 7.

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

	Governmental Activities	Business-Type Activities	Total 2014	2013
Land	\$ 312,907,345	\$ 10,933,528	\$ 323,840,873	\$ 315,111,400
Building and improvements	31,913,909	7,101,767	39,015,677	69,682,635
Machinery and equipment	4,814,797	22,379	4,837,176	4,905,995
Infrastructure	113,978,317	29,331,337	143,309,653	125,252,298
Construction in progress	22,875,804	3,390,815	26,266,619	17,617,840
Total Capital Assets	\$ 486,490,172	\$ 50,779,826	\$ 537,269,998	\$ 532,570,168

Major capital asset events during the current fiscal year included the following: expanding and improving the city streets and traffic corridors for a total of \$6.7 million and Performing Arts and Event Center and various park improvements for \$2.5 million. Additionally there was a land purchase of \$8.2 million for the Target property, and a prior period adjustment to depreciation in Note 15 of \$4.9 million. Additional information on the City of Federal Way's capital assets can be found in Note 8 of the Notes to the Financial Statements.

### Long-term debt

At the end of 2014, the City of Federal Way had total debt outstanding of \$37.1 million. The future principal and interest payments which are backed by the full faith and credit of the government will be \$47.8 million (see page 68 and 69). The remainder of the City's debt represents Public Works Trust Fund Loans.

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

	Governmental Activities	Business-Type Activities	Total
General obligation bonds	\$ 47,805,540	\$ -	\$ 47,805,540
Public works trust fund loan	-	495,016	495,016
Total	\$ 47,805,540	\$ 495,016	\$ 48,300,556

The City's total debt decreased by \$1.2 million due to annual debt service payments.

In February 2013, Moody's Investors Service assigned Aa3 rating to the City's Limited Tax General Obligation Refunding Bonds, 2013.

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



The City's assessed valuation for 2014 was \$8.319 billion and the total amount of debt the City may issue is \$591.3 million. Remaining legal debt capacities as of December 31, 2014 are:

General government (no vote required)	\$ 92,159,058
General government (3/5 majority vote required)	\$ 83,190,592
Parks and open space (3/5 majority vote required)	\$207,976,480
Utilities (3/5 majority vote required)	<u>\$207,976,480</u>
<b>Total Capacity</b>	<b>\$591,302,611</b>

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

## **REQUEST FOR INFORMATION**

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

# STATEMENT OF NET POSITION

December 31, 2014

	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
<b>ASSETS</b>			
Cash & cash equivalents and investments	\$ 68,235,688	\$ 7,241,528	\$ 75,477,216
Receivables (net)	2,342,820	155,402	2,498,222
Due from other governments	2,419,409	390,896	2,810,305
Prepaid items	30,588	-	30,588
Restricted assets:			
Seizure funds/petty cash/advance travel/retainage	134,354	-	134,354
Investment in joint venture	21,985,068	-	21,985,068
Capital assets not being depreciated:			
Land	312,907,345	10,933,528	323,840,873
Construction in progress	22,875,804	3,390,815	26,266,619
Capital assets net of accumulated depreciation:			
Buildings/structures	9,048,779	470,054	9,518,833
Improvements other than buildings	22,865,130	6,631,713	29,496,843
Machinery and equipment	4,814,797	22,379	4,837,176
Infrastructure	113,978,317	29,331,337	143,309,653
Total Assets	<u>581,638,099</u>	<u>58,567,653</u>	<u>640,205,752</u>
<b>LIABILITIES</b>			
Accounts payable and accruals	1,589,376	60,368	1,649,744
Unearned revenue	280,206	359,007	639,212
Retainage payable	206,323	38,288	244,611
Customer deposits	1,323,636	5,564	1,329,200
Noncurrent Liabilities:			
Due within one year	1,168,423	187,962	1,356,385
Due in more than one year	35,763,655	377,521	36,141,176
Total Liabilities	<u>40,331,618</u>	<u>1,028,710</u>	<u>41,360,328</u>
<b>NET POSITION</b>			
Net investment in capital assets	466,078,036	50,299,229	516,377,265
Restricted for:			
Debt service	2,136,390	-	2,136,390
Capital projects	14,062,918	-	14,062,918
Steel Lake & North Lake Mgmt District	-	20,311	20,311
Other	1,191,964	-	1,191,964
Unrestricted	<u>57,837,173</u>	<u>7,219,403</u>	<u>65,056,576</u>
Total Net Position	<u>\$ 541,306,481</u>	<u>\$ 57,538,943</u>	<u>\$ 598,845,424</u>

**STATEMENT OF ACTIVITIES**  
For the Year ended December 31, 2014

		Program Revenues			Net (Expense) Revenue & Changes in Net Position		
		Charges for	Operating	Capital	Governmental	Business-type	Total
Functions/Programs	Expenses	Services	Contributions	Grants and Contributions	Activities	Activities	
<i>Governmental Activities:</i>							
General government	\$ 4,633,942	\$ 2,118,896	\$ 1,771,655	\$ -	\$ (743,391)	\$ -	\$ (743,391)
Security of persons & property	29,703,386	4,637,071	579,991	-	(24,486,324)	-	(24,486,324)
Transportation	11,434,659	1,804,199	1,605,815	5,632,549	(2,392,096)	-	(2,392,096)
Physical environment	443,127	305,742	146,631	-	9,246	-	9,246
Economic environment	2,785,807	3,059,772	1,285,258	-	1,559,222	-	1,559,222
Health	1,056,802	-	-	-	(1,056,802)	-	(1,056,802)
Culture & recreation	8,376,205	2,476,383	20,749	-	(5,879,073)	-	(5,879,073)
Interest on long-term debt	1,010,406	-	-	-	(1,010,406)	-	(1,010,406)
Total governmental activities	59,444,335	14,402,062	5,410,098	5,632,549	(33,999,625)	-	(33,999,625)
<i>Business-type Activities:</i>							
Surface Water Management	3,653,999	3,530,939	607,608	-	-	484,549	484,549
Dumas Bay Centre	945,705	643,673	-	-	-	(302,031)	(302,031)
Total business-type activities	4,599,703	4,174,613	607,608	-	-	182,517	182,517
<b>Total</b>	<b>\$ 64,044,038</b>	<b>\$ 18,576,675</b>	<b>\$ 6,017,706</b>	<b>\$ 5,632,549</b>	<b>(33,999,625)</b>	<b>182,517</b>	<b>(33,817,108)</b>
General revenues:							
Property tax					10,349,906	-	10,349,906
Sales tax					12,173,281	-	12,173,281
Local criminal justice sales tax					2,138,406	-	2,138,406
Utility tax					12,028,878	-	12,028,878
Real estate excise tax					2,062,722	-	2,062,722
Gambling tax					176,068	-	176,068
Hotel/motel tax					231,828	-	231,828
Leasehold excise tax					6,693	-	6,693
Other revenue					883,549	-	883,549
Investment earnings					262,249	22,507	284,757
Transfers					(116,000)	116,000	-
Total general revenues and transfers					40,197,580	138,507	40,336,087
Change in net position					6,197,955	321,025	6,518,979
Net position at beginning of year					540,052,936	57,217,919	597,270,854
Prior period adjustment (See Note 15)					(4,944,409)	-	(4,944,409)
Adjusted beginning net position					535,108,526	57,217,919	592,326,445
Net position at end of year					\$ 541,306,481	\$ 57,538,943	\$ 598,845,424

**BALANCE SHEET  
GOVERNMENTAL FUNDS**

December 31, 2014

	General	Street	Utility Tax	Debt Service
<b>ASSETS</b>				
Equity in pooled cash & investments	\$ 15,313,366	\$ 1,527,218	\$ 1,844,387	\$ 108,058
Prepaid insurance/debt service	25,588	-	-	-
Receivables (net):				
Taxes	260,394	-	1,698,136	-
Accounts and contracts	42,450	-	-	-
Restricted cash	134,354	-	-	-
Due from other governments	1,562,928	82,333	2,674	-
Interfund loans receivable	10,000	-	-	-
<b>TOTAL ASSETS</b>	<b>17,349,080</b>	<b>1,609,551</b>	<b>3,545,197</b>	<b>108,058</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND</b>				
Liabilities:				
Vouchers payable	484,864	164,301	-	54
Accounts/payroll payable	4,674	-	-	-
Retainage payable	-	-	-	-
Deposits payable	528,899	772,111	-	-
Interfund loans payable	-	-	-	-
Unearned revenue	55,286	71,116	-	34,518
<b>TOTAL LIABILITIES</b>	<b>1,073,723</b>	<b>1,007,528</b>	<b>-</b>	<b>34,572</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>	<b>230,939</b>	<b>-</b>	<b>-</b>	<b>-</b>
Fund Balance:				
Nonspendable	105,417	-	-	-
Restricted	54,526	-	-	73,486
Committed	3,403,937	602,023	3,545,197	-
Unassigned	12,480,539	-	-	-
<b>TOTAL FUND BALANCES</b>	<b>16,044,418</b>	<b>602,023</b>	<b>3,545,197</b>	<b>73,486</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	<b>\$ 17,349,080</b>	<b>\$ 1,609,551</b>	<b>\$ 3,545,197</b>	<b>\$ 108,058</b>

**BALANCE SHEET  
GOVERNMENTAL FUNDS**

December 31, 2014

	Downtown Redevelopment	Transportation	Performing Arts & Event Ctr	Nonmajor Governmental	Total
<b>ASSETS</b>					
Equity in pooled cash & investments	\$ 214,369	\$ 8,301,420	\$ 8,578,843	\$ 15,400,991	\$ 51,288,652
Prepaid insurance/debt service	-	-	-	-	25,588
Receivables (net):					
Taxes	-	-	-	274,168	2,232,698
Accounts and contracts	-	-	-	67,672	110,122
Restricted Cash	-	-	-	-	134,354
Due from other governments	119,036	411,403	-	241,035	2,419,409
Interfund loans receivable	-	-	-	-	10,000
<b>TOTAL ASSETS</b>	<b>333,405</b>	<b>8,712,823</b>	<b>8,578,843</b>	<b>15,983,866</b>	<b>56,220,823</b>

**LIABILITIES, DEFERRED INFLOWS  
OF RESOURCES AND FUND**

Liabilities:

Vouchers payable	367	308,545	195,272	205,898	1,359,301
Accounts/payroll payable	-	-	-	-	4,674
Retainage payable	-	192,440	-	13,883	206,323
Deposits payable	-	-	-	22,631	1,323,641
Interfund loans payable	-	-	-	10,000	10,000
Unearned revenue	-	-	-	119,286	280,206
<b>TOTAL LIABILITIES</b>	<b>367</b>	<b>500,985</b>	<b>195,272</b>	<b>371,698</b>	<b>3,184,145</b>

<b>DEFERRED INFLOWS OF RESOURCES</b>	<b>(25)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>230,914</b>
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Fund Balance:

Nonspendable	-	-	-	-	105,417
Restricted	22,804	5,494,696	2,462,606	9,177,738	17,285,856
Committed	310,259	2,717,142	5,920,965	6,434,430	22,933,953
Unassigned	-	-	-	-	12,480,539

<b>TOTAL FUND BALANCES</b>	<b>333,063</b>	<b>8,211,838</b>	<b>8,383,571</b>	<b>15,612,168</b>	<b>52,805,765</b>
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**TOTAL LIABILITIES, DEFERRED  
INFLOWS OF RESOURCES AND FUND  
BALANCES**

<b>\$ 333,405</b>	<b>\$ 8,712,823</b>	<b>\$ 8,578,843</b>	<b>\$ 15,983,866</b>
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Amounts reported for governmental activities in the statement of net position are different because:

Capital assets are used in governmental activities are not financial resources and, therefore, are not reported in the funds. See Note 7, difference is the Internal Service fund amount of \$13.47M on page 37 473,019,406

Investment in joint venture is not a financial resource and, therefore, not reported in the funds. See Note 13. 21,985,068

Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred inflow of resources in the funds. See Note 6. 230,914

Internal service funds are used to charge the costs of insurance, unemployment, information systems, mail and duplication, fleet, and building to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position. Page 37 Internal Service Net Position - Adj \$55.9K + \$45.6K LT Comp Abs. 30,197,406

Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds. See Note 10. (36,932,078)

Net position of governmental activities \$ 541,306,481

**STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS**  
For Year Ended December 31, 2014

	General	Street	Utility Tax	Debt Service
<b>REVENUES</b>				
Taxes	\$ 24,727,864	\$ -	\$ 12,028,877	\$ -
Licenses and permits	3,198,758	112,913	-	-
Intergovernmental	1,692,392	1,118,593	-	-
Service charges and fees	3,849,987	255,884	-	-
Fines and forfeitures	1,038,407	-	-	-
Interest	143,292	802	81,466	2,427
Other	457,127	44,053	-	-
<b>TOTAL REVENUES</b>	<b>35,107,827</b>	<b>1,532,245</b>	<b>12,110,343</b>	<b>2,427</b>
<b>EXPENDITURES</b>				
Current:				
General government	4,031,000	-	80,134	-
Security of persons and property	30,607,442	-	-	-
Transportation	-	4,630,788	-	-
Physical environment	-	-	-	-
Economic environment	2,726,069	-	-	-
Health	835,814	-	-	-
Culture and recreation	3,931,907	-	-	-
Debt service:				
Principal	-	-	-	963,500
Interest/fiscal charges/admin fees	-	-	-	1,021,945
Capital outlay	49,241	-	-	-
<b>TOTAL EXPENDITURES</b>	<b>42,181,473</b>	<b>4,630,788</b>	<b>80,134</b>	<b>1,985,445</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(7,073,646)</b>	<b>(3,098,543)</b>	<b>12,030,209</b>	<b>(1,983,018)</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Anticipation note	-	-	-	-
Transfers in	10,619,159	3,600,566	1,735,831	25,169
Transfers out	(3,641,682)	-	(13,888,383)	(3,217,000)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>6,977,477</b>	<b>3,600,566</b>	<b>(12,152,552)</b>	<b>(3,191,831)</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>(96,169)</b>	<b>502,023</b>	<b>(122,343)</b>	<b>(5,174,849)</b>
<b>FUND BALANCES - BEGINNING</b>	<b>16,140,587</b>	<b>100,000</b>	<b>3,667,540</b>	<b>5,248,336</b>
<b>FUND BALANCES - ENDING</b>	<b>\$ 16,044,418</b>	<b>\$ 602,023</b>	<b>\$ 3,545,197</b>	<b>\$ 73,486</b>

**STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS**  
For Year Ended December 31, 2014

	Downtown Redevelopment	Transportation	Performing Arts & Event Ctr	Nonmajor Governmental	Total
<b>REVENUES</b>					
Taxes	\$ 8,744	\$ -	\$ -	\$ 2,476,430	\$ 39,241,915
Licenses and permits	-	-	-	-	3,311,671
Intergovernmental	1,285,258	4,647,052	-	1,186,538	9,929,833
Service charges and fees	-	1,406,402	-	2,079,522	7,591,795
Fines and forfeitures	-	-	-	2,460,189	3,498,596
Interest	1,402	8,332	3,115	9,603	250,439
Other	-	1,528	-	380,841	883,549
<b>TOTAL REVENUES</b>	<b>1,295,404</b>	<b>6,063,314</b>	<b>3,115</b>	<b>8,593,123</b>	<b>64,707,798</b>
<b>EXPENDITURES</b>					
Current:					
General government	3,306	-	-	330,332	4,444,772
Security of persons and property	-	-	-	627,788	31,235,230
Transportation	-	163,041	-	1,415,171	6,209,000
Physical environment	-	-	-	461,718	461,718
Economic environment	-	-	-	60,473	2,786,542
Health	-	-	-	222,027	1,057,841
Culture and recreation	-	-	-	2,315,045	6,246,952
Debt service:					
Principal	-	-	-	-	963,500
Interest/fiscal charges/admin fees	-	-	-	-	1,021,945
Capital outlay	8,221,755	6,755,012	1,564,307	918,643	17,508,958
<b>TOTAL EXPENDITURES</b>	<b>8,225,061</b>	<b>6,918,053</b>	<b>1,564,307</b>	<b>6,351,197</b>	<b>71,936,458</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(6,929,657)</b>	<b>(854,739)</b>	<b>(1,561,192)</b>	<b>2,241,926</b>	<b>(7,228,660)</b>
<b>OTHER FINANCING SOURCES (USES)</b>					
Anticipation note	8,209,960	-	-	-	8,209,960
Transfers in	300,000	1,598,000	9,944,763	12,617,302	40,440,790
Transfers out	(4,209,763)	(5,726,278)	-	(7,923,492)	(38,606,598)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>4,300,197</b>	<b>(4,128,278)</b>	<b>9,944,763</b>	<b>4,693,810</b>	<b>10,044,152</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>(2,629,460)</b>	<b>(4,983,017)</b>	<b>8,383,571</b>	<b>6,935,736</b>	<b>2,815,492</b>
<b>FUND BALANCES - BEGINNING</b>	<b>2,962,523</b>	<b>13,194,855</b>	<b>-</b>	<b>8,676,432</b>	<b>49,990,273</b>
<b>FUND BALANCES - ENDING</b>	<b>\$ 333,063</b>	<b>\$ 8,211,838</b>	<b>\$ 8,383,571</b>	<b>\$ 15,612,168</b>	<b>\$ 52,805,765</b>

**GENERAL FUND**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**BUDGET AND ACTUAL**  
For Year Ended December 31, 2014

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Taxes	\$ 22,691,000	\$ 23,755,000	\$ 24,727,864	\$ 972,864
Licenses and permits	2,041,000	2,416,000	3,198,758	782,758
Intergovernmental	807,000	1,357,675	1,692,392	334,717
Service charges and fees	2,757,241	3,395,714	3,849,987	454,273
Fines and forfeitures	1,115,000	1,115,000	1,038,407	(76,593)
Interest	74,000	74,000	143,292	69,292
Other	293,650	293,650	457,127	163,477
<b>TOTAL REVENUES</b>	<b>29,778,891</b>	<b>32,407,039</b>	<b>35,107,827</b>	<b>2,700,788</b>
<b>EXPENDITURES</b>				
Current:				
General government	4,121,168	5,731,468	4,031,000	1,700,468
Security of persons and property	28,864,714	29,937,585	30,607,442	(669,857)
Economic environment	2,236,206	3,120,965	2,726,069	394,896
Health	782,871	805,075	835,814	(30,739)
Culture and recreation	3,817,122	4,184,996	3,931,907	253,089
Capital outlay	-	40,000	49,241	(9,241)
<b>TOTAL EXPENDITURES</b>	<b>39,822,081</b>	<b>43,820,089</b>	<b>42,181,473</b>	<b>1,638,616</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(10,043,190)</b>	<b>(11,413,050)</b>	<b>(7,073,646)</b>	<b>4,339,404</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	8,578,187	10,644,187	10,619,159	(25,028)
Transfers out	(2,311,276)	(3,954,601)	(3,641,682)	312,919
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>6,266,911</b>	<b>6,689,586</b>	<b>6,977,477</b>	<b>287,891</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>(3,776,279)</b>	<b>(4,723,464)</b>	<b>(96,169)</b>	<b>4,627,295</b>
<b>FUND BALANCES - BEGINNING</b>	<b>6,276,742</b>	<b>16,140,587</b>	<b>16,140,587</b>	<b>-</b>
<b>FUND BALANCES - ENDING</b>	<b>\$ 2,500,463</b>	<b>\$ 11,417,123</b>	<b>\$ 16,044,418</b>	<b>\$ 4,627,295</b>



**STREET FUND**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**BUDGET AND ACTUAL**  
For Year Ended December 31, 2014

	Budgeted Amounts			Variance with Final Budget - Positive (Negative)
	Original	Final	Actual Amounts	
REVENUES				
Licenses and permits	\$ 115,000	\$ 115,000	\$ 112,913	\$ (2,087)
Intergovernmental	1,040,000	1,104,302	1,118,593	14,291
Service charges and fees	202,000	202,000	255,884	53,884
Interest	2,000	2,000	802	(1,198)
Other	34,000	34,000	44,053	10,053
TOTAL REVENUES	1,393,000	1,457,302	1,532,245	74,943
EXPENDITURES				
Current:				
Transportation	4,405,275	5,292,731	4,630,788	661,943
TOTAL EXPENDITURES	4,405,275	5,292,731	4,630,788	661,943
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(3,012,275)	(3,835,429)	(3,098,543)	736,886
OTHER FINANCING SOURCES (USES)				
Transfers in	3,012,276	3,835,432	3,600,566	(234,866)
Transfers out	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	3,012,276	3,835,432	3,600,566	(234,866)
NET CHANGE IN FUND BALANCES	1	3	502,023	502,020
FUND BALANCES - BEGINNING	100,000	100,000	100,000	-
FUND BALANCES - ENDING	\$ 100,001	\$ 100,003	\$ 602,023	\$ 502,020

**UTILITY TAX FUND**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**BUDGET AND ACTUAL**  
For Year Ended December 31, 2014

	Budgeted Amounts			Variance with Final Budget - Positive (Negative)
	Original	Final	Actual Amounts	
<b>REVENUES</b>				
Taxes	\$ 12,361,000	\$ 12,552,000	\$ 12,028,877	\$ (523,123)
Interest	6,000	6,000	81,466	75,466
<b>TOTAL REVENUES</b>	<b>12,367,000</b>	<b>12,558,000</b>	<b>12,110,343</b>	<b>(447,657)</b>
<b>EXPENDITURES</b>				
Current:				
General government	48,000	48,000	80,134	(32,134)
<b>TOTAL EXPENDITURES</b>	<b>48,000</b>	<b>48,000</b>	<b>80,134</b>	<b>(32,134)</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>12,319,000</b>	<b>12,510,000</b>	<b>12,030,209</b>	<b>(479,791)</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	-	1,735,670	1,735,831	161
Transfers out	(12,822,187)	(14,392,462)	(13,888,383)	504,079
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(12,822,187)</b>	<b>(12,656,792)</b>	<b>(12,152,552)</b>	<b>504,240</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>(503,187)</b>	<b>(146,792)</b>	<b>(122,343)</b>	<b>24,449</b>
<b>FUND BALANCES - BEGINNING</b>	<b>3,211,486</b>	<b>3,667,539</b>	<b>3,667,540</b>	<b>1</b>
<b>FUND BALANCES - ENDING</b>	<b>\$ 2,708,299</b>	<b>\$ 3,520,747</b>	<b>\$ 3,545,197</b>	<b>\$ 24,450</b>

**STATEMENT OF NET POSITION  
PROPRIETARY FUNDS**

December 31, 2014

	Business-type Activities - Enterprise Funds			Governmental Activities
	Surface Water Management	Dumas Bay Centre	TOTAL	Internal Service
<b>ASSETS</b>				
Current Assets				
Equity in pooled cash & investments	\$ 6,755,299	\$ 430,255	\$ 7,185,553	\$ 17,003,012
Prepaid items	-	-	-	5,000
Receivables (net):				
Accounts and contracts	113,772	41,630	155,402	-
Due from other governments	390,896	-	390,896	-
<b>TOTAL CURRENT ASSETS</b>	<b>7,259,967</b>	<b>471,885</b>	<b>7,731,851</b>	<b>17,008,012</b>
Property, plant and equipment				
Land	8,823,888	2,109,640	10,933,528	-
Building/structures	19,849	3,581,015	3,600,864	16,556,966
Improvements other than buildings	7,079,899	-	7,079,899	-
Machinery/furniture/equipment	-	122,200	122,200	16,136,986
Infrastructure	42,809,205	-	42,809,205	-
Construction in progress	3,012,007	378,808	3,390,815	-
Less accumulated depreciation	(13,938,245)	(3,218,438)	(17,156,683)	(19,223,186)
<b>TOTAL NONCURRENT ASSETS</b>	<b>47,806,603</b>	<b>2,973,225</b>	<b>50,779,828</b>	<b>13,470,766</b>
<b>TOTAL ASSETS</b>	<b>55,066,570</b>	<b>3,445,110</b>	<b>58,511,679</b>	<b>30,478,778</b>
<b>LIABILITIES AND FUND EQUITY</b>				
Current Liabilities:				
Vouchers/payroll payable	47,497	12,871	60,368	225,403
Retainage payable - with escrow agent	38,288	-	38,288	-
Deposits payable	-	5,558	5,558	-
Unearned revenue	102,969	256,037	359,006	-
Public Works trust fund loan payable	182,359	-	182,359	-
Compensated absences payable	4,532	1,071	5,603	-
<b>TOTAL CURRENT LIABILITIES</b>	<b>375,645</b>	<b>275,537</b>	<b>651,182</b>	<b>225,403</b>
Long-term liabilities:				
Public Works trust fund loan payable	298,240	-	298,240	-
Compensated absences payable	64,140	15,149	79,289	45,648
<b>TOTAL LONG-TERM LIABILITIES</b>	<b>362,380</b>	<b>15,149</b>	<b>377,529</b>	<b>45,648</b>
<b>TOTAL LIABILITIES</b>	<b>738,025</b>	<b>290,686</b>	<b>1,028,711</b>	<b>271,051</b>
Net investment in capital assets	47,326,004	2,973,225	50,299,229	13,470,766
Restricted for:				
Steel Lake & North Lake Mgmt District	20,311	-	20,311	-
Unrestricted	6,982,230	181,199	7,163,429	16,736,961
<b>TOTAL NET POSITION</b>	<b>\$ 54,328,545</b>	<b>\$ 3,154,424</b>	<b>57,482,969</b>	<b>\$ 30,207,727</b>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds			55,975	
<b>NET POSITION OF BUSINESS-TYPE ACTIVITIES</b>			<b>\$ 57,538,944</b>	

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

For Year Ended December 31, 2014

	Business-type Activities - Enterprise Funds			Governmental Activities
	Surface Water Management	Dumas Bay Centre	TOTAL	Internal Service
<b>OPERATING REVENUES:</b>				
Service charges and fees	\$ 3,487,801	\$ 643,673	\$ 4,131,474	\$ 9,848,540
Intergovernmental	607,608	-	607,608	-
Miscellaneous	43,138	-	43,138	52,033
<b>TOTAL OPERATING REVENUES</b>	<b>4,138,547</b>	<b>643,673</b>	<b>4,782,220</b>	<b>9,900,573</b>
<b>OPERATING EXPENSES:</b>				
Personal services	1,688,025	339,240	2,027,265	814,795
Materials and supplies	140,048	146,578	286,626	771,503
Services and charges	444,104	260,356	704,460	5,794,827
Intergovernmental	248,736	4,941	253,677	162,118
Depreciation	501,420	155,263	656,683	2,111,152
Interfund charges	637,865	40,713	678,578	-
<b>TOTAL OPERATING EXPENSES</b>	<b>3,660,198</b>	<b>947,091</b>	<b>4,607,289</b>	<b>9,654,395</b>
<b>OPERATING INCOME (LOSS)</b>	<b>478,349</b>	<b>(303,418)</b>	<b>174,931</b>	<b>246,178</b>
<b>NON-OPERATING REVENUES (EXPENSES):</b>				
Gain (Loss) from disposal of capital assets	-	-	-	41,437
Interest income	21,407	376	21,783	12,534
Interest expense	(6,630)	-	(6,630)	-
<b>TOTAL NON-OPERATING REVENUES (EXPENSES)</b>	<b>14,777</b>	<b>376</b>	<b>15,153</b>	<b>53,971</b>
<b>INCOME (LOSS) BEFORE TRANSFERS</b>	<b>493,126</b>	<b>(303,042)</b>	<b>190,084</b>	<b>300,149</b>
Capital contributions	-	-	-	75,619
Transfers in	-	116,000	116,000	1,764,834
Transfers out	-	-	-	(3,715,026)
<b>CHANGE IN NET POSITION</b>	<b>493,126</b>	<b>(187,042)</b>	<b>306,084</b>	<b>(1,574,424)</b>
<b>NET POSITION - BEGINNING</b>	<b>53,835,419</b>	<b>3,341,466</b>		<b>31,782,151</b>
<b>NET POSITION - ENDING</b>	<b>\$ 54,328,545</b>	<b>\$ 3,154,424</b>		<b>\$ 30,207,727</b>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise			14,941	
<b>CHANGES IN NET POSITION OF BUSINESS-TYPE ACTIVITIES</b>			<b>\$ 321,025</b>	

**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
For Year Ended December 31, 2014

	Business-type Activities - Enterprise Funds			Governmental Activities
	Surface Water Management	Dumas Bay Centre	TOTAL	Internal Service
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Cash received from users	\$ 3,488,270	\$ 633,948	\$ 4,122,218	\$ 9,848,543
Cash payments to claimants	-	-	-	(553,567)
Cash payments to suppliers for goods/services	(603,055)	(416,815)	(1,019,870)	(5,496,276)
Cash payments to employees	(1,676,496)	(337,608)	(2,014,104)	(814,556)
Cash payments to other funds for goods and services	(637,865)	(40,713)	(678,578)	-
Cash payments to other governments for goods and services	(248,736)	(4,941)	(253,677)	(718,888)
Other operating receipts	458,343	-	458,343	52,033
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>780,461</u>	<u>(166,129)</u>	<u>614,332</u>	<u>2,317,289</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>				
Transfers in	-	116,000	116,000	1,764,833
Transfers out	-	-	-	(3,715,026)
NET CASH PROVIDED BY NONCAPITAL FINANCING	<u>-</u>	<u>116,000</u>	<u>116,000</u>	<u>(1,950,193)</u>
<b>CASH FLOWS FROM CAPITAL AND CAPITAL - RELATED FINANCING ACTIVITIES:</b>				
Principal paid on debt service	(182,359)	-	(182,359)	-
Interest paid on debt service	(6,630)	-	(6,630)	-
Acquisition of capital asset/construction work in progress	(153,463)	-	(153,463)	(1,097,179)
Proceeds from the sale of capital assets	-	-	-	41,437
NET CASH USED FOR CAPITAL AND CAPITAL-RELATED FINANCING ACTIVITIES	<u>(342,452)</u>	<u>-</u>	<u>(342,452)</u>	<u>(1,055,742)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>				
Receipts of interest	21,404	377	21,781	12,535
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>21,404</u>	<u>377</u>	<u>21,781</u>	<u>12,535</u>
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>459,413</b>	<b>(49,752)</b>	<b>409,661</b>	<b>(676,111)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>6,295,886</b>	<b>480,007</b>	<b>6,775,893</b>	<b>17,679,123</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b><u>6,755,299</u></b>	<b><u>430,255</u></b>	<b><u>7,185,554</u></b>	<b><u>17,003,012</u></b>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>				
Operating Income/(loss)	478,351	(303,419)	174,932	246,182
Adjustments to reconcile operating income to net cash provided/(used) by operating activities:				
Depreciation expenses	501,420	155,264	656,684	2,111,152
(Increases)/decrease in accounts receivable	44,787	(32,721)	12,066	-
(Increases)/decrease in due from other governments	(192,403)	-	(192,403)	-
Increases/(decrease) in vouchers/accounts payable	(24,739)	(10,476)	(35,215)	(40,283)
Increases/(decrease) in retainage payable	5,836	-	5,836	-
Increases/(decrease) in deposits payable	-	595	595	-
Increases/(decrease) in deferred revenue	(44,320)	22,996	(21,324)	-
Increases/(decrease) in accrued payroll/compensated absences payable	11,529	1,632	13,161	238
TOTAL ADJUSTMENTS	<u>302,110</u>	<u>137,290</u>	<u>439,400</u>	<u>2,071,107</u>
<b>NET CASH PROVIDED/USED BY OPERATING ACTIVITIES</b>	<b><u>\$ 780,461</u></b>	<b><u>\$ (166,129)</u></b>	<b><u>\$ 614,332</u></b>	<b><u>\$ 2,317,289</u></b>
<b>Non-cash investing, capital, and financing activities:</b>				
Other contributions of capital assets				<u>\$ 44,613</u>

**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**For the Year Ended December 31, 2014**

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

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

**REPORTING ENTITY**

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

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

**Financial Accountability**

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

**Joint Ventures**

A joint venture is a legal entity or organization which results from a contractual arrangement that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which participants retain an ongoing financial interest or an ongoing financial responsibility. The City participates in two joint ventures: Valley Communications Center and South Correctional Entity (SCORE). See Note 13, Joint Venture, which more fully describes these organizations.

**GOVERNMENTAL-WIDE AND FUND FINANCIAL STATEMENTS**

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

The differences between the governmental fund statements and the entity-wide statements represent reconciling items between the fund level and government-wide financial statements. The reconciliations are included as part of the financial statements.

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

Separate fund financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

## **MEASUREMENT FOCUS, BASIS OF ACCOUNTING, FINANCIAL STATEMENT PRESENTATION**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund 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 Funds**

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

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

The City reports the following major governmental funds:

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

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

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

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

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

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

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

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

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

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

## **Proprietary Funds**

Proprietary funds are used to account for activities similar to those found in the private sector where the intent of the governing body is to finance the full cost of providing services, including depreciation, primarily through user charges. The measurement focus for these funds is based on the commercial model, which uses a flow of economic resources approach. Under this approach, the operating statements for the proprietary funds focus on a measurement of net income (revenues and expenses) and both current and non-current assets and liabilities are reported on the related Statement of Net Position.

As a general rule the effect of the inter-fund activity has been eliminated for the government-wide financial statements.

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

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

The City reports the following major proprietary funds:

## **Enterprise Funds**

The City uses enterprise funds to account for government activities that are financed and operated in a manner similar to private business. Costs of providing services to the general public are primarily financed by user fees.

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

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

## **Internal Service Funds**

The City uses Internal Service Funds to account for the financing of goods or services provided by one department or agency to other departments or agencies of a government, or to other governments, on a cost-reimbursement basis.

A description of each individual Internal Service Fund is included in the Comprehensive Annual Financial Report provided below:

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

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



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

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

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

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

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

## **Basis of Accounting**

Basis of accounting refers to when revenues and expenditures or expenses are recognized and reported in the financial statements.

The **accrual basis** of accounting is used by proprietary funds. Under this method, revenues are recognized when earned, and expenses are recognized when incurred.

The **modified accrual** basis of accounting is used by governmental funds. Revenues and other financial resources are recognized when they become susceptible to accrual, i.e., when the related funds become both measurable and available to finance expenditures of the current period. To be considered "available", revenue must be collected during the current period or soon enough thereafter to pay current liabilities. The City uses thirty days when evaluating the available criteria to accrue revenues except for proprietary funds.

Expenditures are recognized when the related fund liability is incurred. Since the recognition of depreciation does not reduce net financial resources, it is not considered as expenditure. Other exceptions include (1) inventories of materials and prepaid items are reported as expenditures when purchased, (2) interest on long-term debt is not accrued but is recorded as an expenditure when due, (3) accumulated unpaid vacation and sick pay are considered expenditures when paid.

Major revenues recorded on the modified accrual basis are:

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

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

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

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

**Other Revenue Sources** - Other items recognized as revenue in the current year on the modified accrual basis include investment interest earned but not received at year end; inter-fund, and intergovernmental service billings related to services provided in the current year which are outstanding at year end; and any other material revenue amounts determined to be both measurable and available under current modified accrual accounting practices.

Revenues not considered to meet the criteria for recognition on the modified accrual basis include licenses and permits, fines and forfeitures, and other miscellaneous revenues which are generally not measurable until received.

## FINANCIAL STATEMENT PRESENTATION

In order to obtain an understanding of changes in the City's position and the results of the City's operations, the financial statements for year end of 2014 should be read in conjunction with the government's financial statements for the year ended December 31, 2013.

## BUDGETARY INFORMATION

### Scope of Budget

Annual appropriated budgets are adopted for the general, some special revenue, and debt service funds on the modified accrual basis of accounting. For governmental funds, there are no differences between the budgetary basis and generally accepted accounting principles. Budgets for project and grant related special revenue funds and capital project funds are adopted at the level of the individual project and for fiscal periods that correspond to the lives of projects. Since these funds are not budgeted on an annual basis, budgetary comparisons are not presented. NCGA Statement 1 does not require, and the financial statements do not present, budgetary comparisons for proprietary fund types.

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

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

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

### Procedures for Adopting the Biennial Budget

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

- By late May the official budget call is made by the Finance Director for current level service budgets and a preliminary financial forecast.
- By late June, departments submit their preliminary expenditure estimates and the Finance department updates the preliminary revenue estimates to define resources available to finance coming year expenditure programs.

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

### **Amending the Budget**

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

When the City Council determines that it is in the best interest of the City to increase or decrease the appropriation for a particular fund, it may do so by ordinance approved by a simple majority.

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

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

### **Encumbrances**

An encumbrance system is used for budgetary control purposes to record commitments resulting from approved purchase orders. During the year, encumbrances are recorded in the accounting system at the time purchase orders are issued for goods and services. Upon payment, the encumbrance is reversed and the actual cost of the related item is recorded as fund expenditure. Outstanding encumbrances lapse at year end, are canceled and rolled over to the next fiscal year. Therefore, these amounts have not been recorded as current year expenditures unless considered to be susceptible to accrual at the end of the year. Below is a schedule of encumbrances by major funds and aggregated non-major funds.

<b>SCHEDULE OF ENCUMBRANCES BY FUNDS AND FUND CATEGORY AS OF DECEMBER 31, 2014</b>		
<b>FUND</b>	<b>TYPE</b>	<b>ENCUMBRANCES</b>
General Fund	Major	\$ 2,563,075
Street Fund	Major	297,220
Capital Proj Fund-Streets	Major	2,514,906
Surface Water Management	Major	355,984
PACC Capital Project	Major	308,422
Dumas Bay Centre	Major	188,085
Non-Major Funds	Non-Major	1,884,994
<b>Total</b>		<b>\$ 8,112,684</b>

## **ASSETS, LIABILITIES, FUND BALANCE, NET POSITION**

### **Cash and Investments**

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

It is the City's policy to invest all cash not immediately required for disbursement. At December 31, 2014, the State Treasurer was holding \$63,798,002 in the Local Government Investment Pool. The Local Government Investment Pool is considered a cash equivalent. The interest earnings on these investments are allocated to all funds based on the average monthly balance for each fund.

For purposes of the Statement of Cash Flows, the City considers all highly liquid investments with a maturity of three months or less when purchased, to be cash equivalents. At December 31, 2014, the total cash and cash equivalents were \$75,611,617.

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

The City is authorized by State law to purchase certificates of deposit issued by Washington State depositories that participate in a state insurance pool managed by the Washington Public Deposit Protection Commission; securities purchased by the Washington State Investment Pool; U.S. Treasury and Agency securities, banker's acceptances trading in the secondary market; and repurchase agreements with dealers that use authorized securities as collateral.

In accordance with GASB 31, investments in money market investments and participating interest-earning investment contracts with a remaining maturity of one year or less at the time of purchase are stated at amortized cost. All other investments are stated at fair value. There was no material deviation from fair value quoted at year-end.

### **Receivables**

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

Due From Other Governments reflects measurable and available intergovernmental grants, entitlements, or State shared revenues (taxes/charges levied and collected by an intermediary collecting government and distributed on same basis); loans; and charges for services rendered by the City for another government unit. A separate schedule of Due From Other Governments is disclosed in Note 6.

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

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

Loans between funds must be authorized by the Mayor and Council. In the governmental funds, loans to other funds are offset by a corresponding restricted of fund balance to indicate that the outstanding loan amounts do not constitute "available spendable resources" and are, therefore, not available for appropriation. A separate schedule of inter-fund loans receivable and payable is furnished in Note 11.

## Inventories

Inventories in the governmental funds are recorded as expenditures at the time of purchase. Amounts remaining at year-end are immaterial and, therefore, are not reflected on the balance sheets of those funds. There were no material inventories at year-end in the Internal Service or Enterprise Funds.

## Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements.

Major expenditures for capital assets, including capital leases and major repairs that increase useful lives are capitalized. Maintenance, repairs, and minor renewals are accounted for as expenditures or expenses when incurred. The City has adopted a general capital asset capitalization policy where an item's cost must equal or exceed \$5,000 and estimated economic useful life of one year or more. All capital assets are valued at historical cost or estimated cost; where historical cost is not known or at an estimated market value for donated assets.

Depreciation on all capital assets is recorded as an allocated expense in the government-wide Statement of Activities and in the proprietary fund statements. Capital assets are reported net of depreciation. The City uses a combination of group depreciation and straight-line depreciation over the life of the assets.

The following summarizes the average service lives used to calculate depreciation for specific categories of assets in the City's Assets:

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

## Compensated Absences Payable

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

Employee vacation leave is accumulated monthly at rates ranging from 12 to 22.5 days per year depending on term of employment. Employees may accumulate up to a maximum of 240 hours of vacation leave, except the Police Guild, who can accrue up to a maximum of 360 hours. Outstanding vacation leave is payable upon termination of employment at the following rate: City Employees up to 240 hours and Police Guild members will be paid out up to two years of their monthly vacation accrual rate.

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

Sick leave may be accumulated up to a maximum of 720 hours for regular City employees per City policy and 1,040 hours for the Police Guild, per their contract. The monthly accrual rate for City employees is 8 hours per month. Accumulated sick leave is not payable upon termination of employment. Outstanding sick leave at year-end is not accrued due to the difficulty in estimating the portion of existing balances likely to result in expenditures in future periods. Compensated Absences Payable outstanding at year-end is outlined in Note 10.

### **Long-Term Liabilities**

In the government-wide financial statements and the proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statement of net position. Long-term debt outstanding at year-end is outlined in Note 10.

### **Fund Balance Classification**

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

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

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

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

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

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

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

When multiple categories of fund balance are available for expenditure, the City will start with the most restricted category and spend those funds first before moving down to the next category with available funds. The minimum fund balance established by the Reserve Policy states “The City shall establish fund balance target of seventeen percent of the City’s General Fund operating expenditures. The purpose of the ending fund balance is to provide financial stability, cash flow for operations and the assurance that the City will be able to respond to revenue shortfalls with fiscal strength.” General fund expenditures at 12/31/2014 were \$42.2 million and Unassigned General fund balance at year-ended 2014 was \$12.5 million (29%).

The Government-wide statement of net position reports \$598.8 million of net position, of which \$17.4 million is restricted by the enabling legislation.

2014 FUND BALANCE CLASSIFICATION									
Fund Balance	General Fund	Street	Utility Tax	Debt Service	Downtown Redvelop.	Transportation	Performing Arts & Event Ctr	Nonmajor Gov't	Total
<b>Nonspendable:</b>									
Court trust	\$ 79,828	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	79,828
Prepaid insurance/debt service	25,588	-	-	-	-	-	-	-	25,588
<b>Restricted for:</b>									
Police covert/seizure	54,526	-	-	-	-	-	-	-	54,526
Future debt payments	-	-	-	73,486	-	-	-	-	73,486
Special Contracts/Studies	-	-	-	-	-	-	-	435,061	435,061
Hotel/Motel Lodging Tax	-	-	-	-	-	-	-	400,296	400,296
Path & Trails Reserves	-	-	-	-	-	-	-	196,665	196,665
Downtown Redevelopment	-	-	-	-	22,804	-	-	-	22,804
City Facilities CIP	-	-	-	-	-	-	-	199,943	199,943
Parks CIP	-	-	-	-	-	-	-	4,394,909	4,394,909
Transportation CIP	-	-	-	-	-	5,494,696	-	-	5,494,696
Performing Arts & Event Ctr	-	-	-	-	-	-	2,462,606	-	2,462,606
Real Estate Excise Tax	-	-	-	-	-	-	-	3,550,864	3,550,864
<b>Committed to:</b>									
Capital, debt, and operations	-	-	2,710,594	-	-	-	-	-	2,710,594
Petty cash/advance travel	21,600	-	-	-	-	-	-	-	21,600
Comm. Development Block Grant	-	-	-	-	-	-	-	48,924	48,924
Proposition 1	-	-	834,603	-	-	-	-	-	834,603
Transportation CIP	-	-	-	-	-	2,717,142	-	-	2,717,142
Downtown Redevelopment	-	-	-	-	310,259	-	-	-	310,259
Arterial Street	-	-	-	-	-	-	-	308,706	308,706
Solid Waste/Recycling	-	-	-	-	-	-	-	204,135	204,135
2% for the Arts	293	-	-	-	-	-	-	-	293
Federal Way Community Center	-	-	-	-	-	-	-	1,573,469	1,573,469
Traffic Safety	-	-	-	-	-	-	-	3,500,514	3,500,514
Snow/ice removal	-	602,023	-	-	-	-	-	-	602,023
Parks CIP	-	-	-	-	-	-	-	318,515	318,515
Performing Arts & Event Ctr	-	-	-	-	-	-	5,920,965	-	5,920,965
Capital Project Reserve	-	-	-	-	-	-	-	480,167	480,167
Strategic Opportunities Reserve	3,382,044	-	-	-	-	-	-	-	3,382,044
<b>Unassigned:</b>									
General Fund	12,480,539	-	-	-	-	-	-	-	12,480,539
<b>Total Fund Balance:</b>	<b>\$ 16,044,418</b>	<b>\$ 602,023</b>	<b>\$ 3,545,197</b>	<b>\$ 73,486</b>	<b>\$ 333,063</b>	<b>\$ 8,211,838</b>	<b>\$ 8,383,571</b>	<b>\$ 15,612,168</b>	<b>\$ 52,805,765</b>

## Interfund Transactions

There are four types of transactions between funds – inter-fund loans, inter-fund services provided and used, inter-fund reimbursements, and inter-fund transfers. Interfund loans are temporary borrowings of cash which do not affect operating statements, but which may incur interest expense or expenditure to the borrowing fund. Interfund services provided and used are equivalent to buying goods or services from an outside vendor, and are accounted for by the related funds as revenues, expenditures or expenses. Interfund reimbursements are repayments to a fund for expenditures or expenses that belong to another fund. They involve only expenditure or expense accounts. The transfers are accounted for as "other financing sources and uses" and are therefore included in the operating statements (see Note 11).



## NOTE 2 – RECONCILIATION OF GOVERNMENT-WIDE & FUND FINANCIAL STATEMENTS

### Explanation of Certain Differences between the Governmental Funds Balance Sheet and the Government-Wide Statement of Net Position

The governmental funds' balance sheet includes reconciliation between *fund balance – total governmental funds and net position – governmental activities* as reported in the government-wide statement of net position. One element of the reconciliation explains that “long-term liabilities, including bonds payable, are not due and payable in the current period, and, therefore, are not reported in the funds.” The details of this \$36,932,078 difference are as follows:

Bonds Payable & Premium at beginning of year	\$ 27,917,315
Plus: Inclusion of compensated absences	1,831,541
Plus: Current year addition/reduction of principal portion of debt & premium	<u>7,183,222</u>
Net Adjustment to reduce fund balance-total governmental funds to arrive at net position - governmental activities	<u>\$ 36,932,078</u>

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

The governmental funds' statement of revenues, expenditure, and changes in fund balances includes reconciliation between *net changes in fund balances – total governmental funds and changes in net position of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that “Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.” The details of this \$12,482,871 difference are as follows:

Capital outlay	\$ 17,508,958
Plus: Contributed Capital	\$ 985,496
Less: Governmental depreciation expense	(7,408,640)
Plus: Increase investment in joint venture	<u>1,397,057</u>
Net adjustment to increase net changes in fund balances - Total governmental funds to arrive at changes in net position of governmental activities	<u>\$ 12,482,871</u>

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

Property taxes earned reported as deferred inflow of resources in the fund statements	<u>\$ (74,134)</u>
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Another element of the reconciliation states that “Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the funds.” This item represents:

Compensated absences	<u>\$ (253,688)</u>
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## NOTE 3 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

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



## NOTE 4 – SUPPLEMENTAL APPROPRIATIONS

### Operating Budget Funds

Appropriations established during 2014 for the City's operating budget funds are provided below. As explained in Note 1, both original and supplemental appropriations are adopted by the City Council by ordinance. Both original and final budget appropriations are shown on the accompanying financial statements. The final budget values include all adopted adjustments to original budget amounts.

FUND	2014		
	ORIGINAL BUDGET	SUPPLEMENTAL APPROPRIATIONS	FINAL BUDGET
<i>General Fund</i>	\$ 39,822,081	\$ 3,998,008	\$ 43,820,089
<i>Special Revenue Funds:</i>			
Street Fund	4,405,275	887,456	5,292,731
Arterial Street Fund	1,536,500	159,531	1,696,031
Utility Tax Fund	48,000	-	48,000
Solid Waste/Recycling Fund	467,261	32,151	499,412
Special Contracts / Studies	1,600	355,419	357,019
Hotel/Motel Lodging Tax	195,300	31,734	227,034
Federal Way Community Center	2,197,775	10,774	2,208,549
Traffic Safety	-	625,000	625,000
Real Estate Excise Tax	-	-	-
Community Development Block Grant	576,000	602,896	1,178,896
Paths & Trails	-	-	-
<i>Subtotal Special Revenue Funds:</i>	9,427,711	2,704,961	12,132,672
<i>Debt Service Fund</i>	2,075,550	(80,158)	1,995,392
<i>Capital Project Funds:</i>			
Downtown Redevelopment	-	8,237,300	8,237,300
City Facilities	-	201,026	201,026
Parks	1,373,000	3,923,166	5,296,166
Transportation	7,087,000	9,982,610	17,069,610
Capital Project Reserve	-	-	-
Performing Arts & Event Center	-	9,944,763	9,944,763
<i>Subtotal Capital Project Funds:</i>	8,460,000	32,288,865	40,748,865
<b>Total:</b>	<b>\$ 59,785,342</b>	<b>\$ 38,911,676</b>	<b>\$ 98,697,018</b>

## NOTE 5 – DEPOSITS AND INVESTMENTS

As required by state law, all deposits and investments of the City's funds are obligations of the U.S. Government, the Local Government Investment Pool, bankers' acceptances, or deposits with Washington State banks and savings and loan institutions. In 2014 the City utilized all the above with the exception of bankers' acceptances as legal authorized investment instruments. The City's investment policies are described in Note 1.

### Cash and Deposits

The City follows the practice of pooling cash and investments of all funds, except restricted funds and funds held with a trustee or in escrow, for investment purposes as disclosed in Note 1. At December 31, 2014, the equity in pooled cash and investments was \$75,611,568.

At year-end, the City had \$75,611,568 in cash and cash equivalents which consisted of investments with the Local (LGIP) Government Investment Pool of \$63,798,002 the City's checking account bank balance prior to outstanding checks was \$11,526,504; and petty cash and change funds, advance travel fund and investigative fund totaling \$48,860, Court Trustee

Fund of \$79,828, cash with escrow agent of \$166,157, and bank fees of \$7,783. No deposits were uninsured or uncollateralized. Insurance coverage up to \$250,000 is through federal depository insurance and the Washington Public Deposit Protection Commission (WPDPC) covers amounts over \$250,000. Under State statute, members of WPDPC, a multiple-financial institution collateral pool, may be assessed on a prorated basis if the pool's collateral is insufficient to cover a loss. Investments are carried at cost or book value because the City holds all investments until maturity. The fair value of the positions in the State Investment Pool is the same as the value of the pool shares.

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

As of December 31, 2014 the City had the following investments and maturities:

**SCHEDULE OF INVESTMENTS BY MATURITIES  
AS OF DECEMBER 31, 2014**

Investment Type	Book Value	Investment maturities		
		Less than 1 year	1 to 2 years	Greater than 3 years
State Investment Pool	\$ 63,798,002	\$ 63,798,002	\$ -	\$ -
	\$ 63,798,002	\$ 63,798,002	\$ -	\$ -
<u>Reconciliation of Government-Wide Statement of Net Position:</u>				
Key Bank checking account per books		\$ 11,526,504		
Petty cash/change fund/advance travel/investigative fund		48,860		
Local Government Investment Pool		63,798,002		
Bank Fees		(7,783)		
Municipal Court Trust on books		79,828		
Subtotal cash and cash equivalents		75,445,411		
Cash with escrow agent		166,157		
Total cash and investments, Government-Wide				
<b>Statement of Net Position</b>		<b>\$ 75,611,568</b>		

## Investments

### Interest Rate Risk

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

### Credit Risk

Credit risk is the risk that an issuer or other counter-party has to an investment in not fulfilling its obligations. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.

State law and the City's investment policy limits the instruments in which the City may invest. The following are categories of investments authorized under the City's policy, in general order of safety and liquidity: Local Government Investment Pool (LGIP); repurchase agreements; U.S. treasury obligations; U.S. government agencies; U.S. government-sponsored corporations/instrumentalities; bankers' acceptances (secondary market domestic and foreign); commercial paper (secondary market); insured certificates of deposit (banks and savings & loans); and uninsured/collateralized certificates of deposit (banks and savings & loans).

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

As of December 31, 2014, all City investments were in the LGIP. The LGIP is unrated. LGIP is comparable to Securities Exchange Commission 2a-7 to minimize credit risk.

### Concentration of Credit Risk

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

### Other Information

Below is a schedule of investments by fund type:

<b>SCHEDULE OF INVESTMENTS BY FUND CATEGORY AND INVESTMENT TYPE</b>			
<b>AS OF DECEMBER 31, 2014</b>			
<b>Fund Type</b>	<b>State Investment</b>		<b>Total</b>
	<b>Pool</b>		
General Fund	\$	12,701,839	\$ 12,701,839
Special Revenue Funds		11,575,464	11,575,464
Capital Projects Funds		20,863,963	20,863,963
Enterprise Funds		4,158,439	4,158,439
Internal Services Funds		14,498,298	14,498,298
<b>Total:</b>	<b>\$</b>	<b>63,798,002</b>	<b>\$ 63,798,002</b>

### **NOTE 6 – RECEIVABLES, DUE FROM OTHER GOVERNMENTS, UNEARNED REVENUES, AND DEFERRED INFLOW OF RESOURCES**

#### **Property Taxes**

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

#### **PROPERTY TAX CALENDAR**

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

As described in Note 1, taxes are levied and become an enforceable lien against properties as of January 1. Annual tax billings may be paid in two equal installments, due April 30 and October 31. At December 31, 2014, the total balance of property taxes receivable recorded by the City was \$242,510. Of this, \$230,914 is recorded as deferred inflow of resources, since it was not collected within the first 30 days of the end of 2014.

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

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

1. Chapter 84.55 of the State RCW was amended most recently by Initiative No. 747 (which was passed by voters on November 6, 2001), limits the total dollar amount of regular property taxes levied by the City to the amount of such taxes levied in the three most recent years multiplied by a limit factor, plus an adjustment to account for taxes on new construction, improvements and state-assessed property at the previous year's rate. As amended by Initiative No. 747, the limit factor is the lesser of 101% or 100% plus the percent change in the Implicit Price Deflator, unless a greater amount is approved by a simple majority of the voters; and

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

The City's regular levy for 2014 was \$1.39626 per \$1,000 on an assessed valuation of \$7,333,627,904 for a total regular levy of \$10,239,666.

### Deferred Inflow of Resources

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

DEFERRED INFLOW OF RESOURCES AS OF DECEMBER 31, 2014			
Deferred Inflow	General	Downtown Redev.	Total General Gov't
Property tax	\$ 230,939	\$ (25)	\$ 230,914
<b>Total by Fund:</b>	<b>\$ 230,939</b>	<b>\$ (25)</b>	<b>\$ 230,914</b>

### Unearned Revenues

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

UNEARNED REVENUES AS OF DECEMBER 31, 2014									
Unearned Revenues	General	Street	Downtown Redev.	Debt Service	Nonmajor Gov't	Total General Govt	Surface Water Mgmt	Dumas Bay Centre	Total Proprietary
SWM fees	-	-	-	-	-	-	102,969	-	102,969
Public Defender Grant	-	-	-	-	-	-	-	-	-
King County New Solution Grant	-	-	-	-	-	-	-	-	-
Commute Trip Reduction Grant	-	71,116	-	-	-	71,116	-	-	-
South King Fire & Rescue Buy-In of ValleyCom	-	-	-	34,518	-	34,518	-	-	-
Recreation programs / facility rentals	55,285	-	-	-	119,286	174,571		256,037	256,037
Total by Fund:	\$ 55,285	\$ 71,116	\$ -	\$ 34,518	\$ 119,286	\$ 280,205	\$ 102,969	\$ 256,037	\$ 359,007

### Receivables & Due from Other Governments

The receivables for the fiscal year ended December 31, 2014 on the government-wide statement of net position are detailed in the following schedule.

RECEIVABLES & DUE FROM OTHER GOVERNMENTS AS OF DECEMBER 31, 2014									
Receivable	General	Street	Utility Tax	Real Estate Excise Tax	Downtown Redevelopment	Transport- ation	Nonmajor Gov't	Proprietary	Total
Property tax	\$ 242,510	\$ -	\$ -	\$ -	\$ (0)	\$ -	\$ -	\$ -	\$ 242,510
Real Estate Excise tax	-	-	-	274,168	-	-	-	-	274,168
Utility tax	-	-	1,698,136	-	-	-	-	-	1,698,136
Gambling tax	17,884	-	-	-	-	-	-	-	17,884
Recreation programs/ facilities	35,788	-	-	-	-	-	67,672	39,600	143,060
Grants & contributions	32,395	-	-	-	-	386,820	187,869	366,731	973,814
Other receivable	233,863	-	-	-	-	-	-	2,030	235,893
State Shared revenue	1,303,331	82,334	2,674	-	119,036	24,583	53,165	-	1,585,124
Surface Water Management fees	-	-	-	-	-	-	-	137,937	137,937
<b>Total by Fund:</b>	<b>\$ 1,865,771</b>	<b>\$ 82,334</b>	<b>\$ 1,700,810</b>	<b>\$ 274,168</b>	<b>\$ 119,036</b>	<b>\$ 411,403</b>	<b>\$ 308,706</b>	<b>\$ 546,298</b>	<b>\$ 5,308,527</b>

### NOTE 7 – CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2014 is as follows:

**CAPITAL ASSETS**  
**AS OF DECEMBER 31, 2014**

<b>Governmental Activity</b>	<b>Beginning Balance 1/1/2014</b>	<b>Additions</b>	<b>Deletions</b>	<b>Ending Balance 12/31/2014</b>
Capital Assets, not being depreciated:				
Land	\$ 304,177,872	\$ 8,729,473	\$ -	\$ 312,907,345
Construction in progress	14,380,488	9,186,947	(691,631)	22,875,804
Total capital assets, not being depreciated:	318,558,360	17,916,420	(691,631)	335,783,149
Capital assets, being depreciated:				
Buildings	17,268,117	139,706	(8,039)	17,399,784
Improvements other than buildings	43,865,580	457,531	-	44,323,111
Infrastructure	164,610,040	703,434	-	165,313,474
Machinery & equipment	15,640,833	1,141,792	(461,637)	16,320,988
Total capital assets, being depreciated:	241,384,570	2,442,463	(469,676)	243,357,357
Less accumulated depreciation for:				
Buildings	(7,441,336)	(917,709)	8,039	(8,351,006)
Improvements other than buildings	(19,316,335)	(2,141,647)	-	(21,457,982)
Infrastructure	(46,079,820)	(5,255,338)	-	(51,335,158)
Machinery & equipment	(10,762,730)	(1,205,096)	461,637	(11,506,189)
Total accumulated depreciation:	(83,600,221)	(9,519,790)	469,676	(92,650,335)
Total assets being depreciated, net	157,784,349	(7,077,327)	-	150,707,022
<b>Governmental activities capital assets, net</b>	<b>\$ 476,342,710</b>	<b>\$ 10,839,093</b>	<b>\$ (691,631)</b>	<b>\$ 486,490,172</b>

<b>Business-Type Activities</b>	<b>Beginning Balance 1/1/2014</b>	<b>Additions</b>	<b>Deletions</b>	<b>Ending Balance 12/31/2014</b>
Capital Assets, not being depreciated:				
Land	\$ 10,933,528	\$ -	\$ -	\$ 10,933,528
Construction in progress	3,237,352	153,463	-	3,390,815
Total capital assets, not being depreciated:	14,170,880	153,463	-	14,324,343
Capital assets, being depreciated:				
Buildings	3,600,864	-	-	3,600,864
Improvements other than buildings	7,079,899	-	-	7,079,899
Infrastructure	42,809,205	-	-	42,809,205
Machinery & equipment	122,200	-	-	122,200
Total capital assets, being depreciated:	53,612,167	-	-	53,612,167
Less accumulated depreciation for:				
Buildings	(2,980,066)	(150,742)	-	(3,130,808)
Improvements other than buildings	(378,616)	(69,570)	-	(448,186)
Infrastructure	(13,047,007)	(430,858)	-	(13,477,865)
Machinery & equipment	(94,310)	(5,515)	-	(99,825)
Total accumulated depreciation:	(16,499,999)	(656,685)	-	(17,156,684)
Total assets being depreciated, net	37,112,168	(656,685)	-	36,455,483
<b>Business-Type activities capital assets, net</b>	<b>\$ 51,283,048</b>	<b>\$ (503,222)</b>	<b>\$ -</b>	<b>\$ 50,779,826</b>

At the end of 2014, 33 projects comprise the Construction in Progress for Governmental Activities. Upon completion, the projects will be capitalized in the Government-wide statements in their appropriate categories. Construction commitments for Governmental Activities as of December 31, 2014, are as follows:

AS OF DECEMBER 31, 2014		
Governmental Activities Projects	Construction in progress	Remaining Commitment
Downtown Redevelopment	\$ 279,919	\$ -
Major Facility Rehabilitation	231,109	54,462
Performing Arts & Event Center	2,822,335	144,877
Regional Park Development	300,666	-
Downtown Park	346,324	1,585,000
Lakota Park	166,912	-
Hylebos Boardwalk Replacement	1,365,764	23,747
Sacajawea Park Masterplan	690,686	41,816
Trail and pedestrian access improvements	250,326	1,086,912
Laurelwood	40,460	161,984
Celebration Park Maintenance Building	18,079	53,504
Saghalie Track Improvements	117,393	13,015
S 320th St @ 20th Ave South	2,453,063	549,202
SW 312th ST @ SR509	322,381	25,444
10th Avenue SW / SW 344th St: SW Campus Drive - 21st Ave SW	252,301	66,230
1st Ave South & South 28th Intersection	125,271	105,579
S 352nd Street Extension From SR-99 to SR-161	452,008	-
S 304th St @ 28th Ave S	232,496	183,318
South 356th St: SR99 - SR161	200,337	595,196
SR99 HOV Lanes Phase 5	1,120,974	2,095,153
SW 336th Way / SW 340th St: 26th Pl SW - Hoyt Rd	52,312	212,694
21ST AVE SW @ SW 336TH ST	4,785,307	141,020
Citywide Flashing Yellow Lights Installation	158,973	-
SR 99 @ S 312th St	7,260	55,936
S 344th Way @ Weyerhaeuser Way S	281,685	12,371
SW 312th St & 14th Ave SW Lakota Safe Rt to School Imp	2,265,643	-
City Wide Safety Projects (Flashing Yellow Lights Installation)	617,743	260,261
Safety Improvement Projects - S320th Street from SR99 to I-5	279,353	208,129
Safety Improvement Projects - SR99 from S320th Street to S330th Street	156,205	134,317
S 320th Street - 11th Pl South to I-5 Limited Access Preservation Project	1,360,196	129,933
13th Ave SW: SW 314th St to SW 316th St Safe Route to School Improvements	-	-
14th Avenue S: S 308th Street - South 312th Street	671,985	4,484
School Zone Enhancements	450,338	207,000
<b>Total governmental activities</b>	<b>\$ 22,875,804</b>	<b>\$ 8,151,584</b>

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

<b>CAPITAL ASSETS DEPRECIATION BY TYPE AS OF DECEMBER 31, 2014</b>	
<b>Governmental and Internal Service Activities</b>	
General Government	\$ 420,698
Security of Persons & Property	997,565
Transportation	5,511,456
Physical Environment	16,361
Economic Environment	97,929
Health	25,905
Culture & Recreation	2,449,876
<b>Total Depreciation - Governmental Activities</b>	<b>\$ 9,519,790</b>
<b>Business-Type Activities</b>	
Utilities - Surface Water Management	\$ 501,420
Culture & Recreation - Dumas Bay Centre	155,264
<b>Total Depreciation - Business-Type Activities</b>	<b>\$ 656,685</b>

## NOTE 8 – PENSION PLANS

### Washington State Department of Retirement Systems

Substantially all City full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit retirement plans. 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 98504-8380; or it may be downloaded from the DRS website at [www.drs.wa.gov](http://www.drs.wa.gov).

The following disclosures are made pursuant to GASB Statements No. 27, *Accounting for Pensions by State and Local Government Employers* and No. 50, *Pension Disclosures, an Amendment of GASB Statements No. 25 and No. 27*.

### Public Employees' Retirement System (PERS) Plan I, 2 and 3

#### Plan Description

The Legislature established PERS in 1947. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts (other than judges currently in the Judicial Retirement System); employees of legislative committees; community and technical colleges, college and university employees not participating in higher education retirement programs; judges of district and municipal courts; and employees of local governments. PERS retirement benefit provisions are established in Chapters 41.34 and 41.40 RCW and may be amended only by the State Legislature.

PERS is a cost-sharing multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a defined benefit plan with a defined contribution component.

PERS members who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 and by either, February 28, 2002 for state and higher education employees, or August 31, 2002 for local government employees, are Plan 2 members unless they exercised an option to transfer their membership to Plan 3. PERS members joining the system on or after March 1, 2002 for state and higher education employees, or September 1, 2002 for local government employees have the irrevocable option of choosing membership in either PERS Plan 2 or PERS Plan 3. The option must be exercised within 90 days of employment. An employee is reported in Plan 2 until a choice is made. Employees who fail to choose within 90 days default to



PERS Plan 3. Notwithstanding, PERS Plan 2 and Plan 3 members may opt out of plan membership if terminally ill, with less than five years to live.

PERS Plan 1 and Plan 2 defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions.

PERS Plan 1 members are vested after the completion of five years of eligible service. Plan 1 members are eligible for retirement after 30 years of service, or at the age of 60 with five years of service, or at the age of 55 with 25 years of service. The monthly benefit is 2 percent of the average final compensation (AFC) per year of service. (AFC is the monthly average of the 24 consecutive highest-paid service credit months.) The retirement benefit may not exceed 60 percent of AFC. The monthly benefit is subject to a minimum for PERS Plan 1 retirees who have 25 years of service and have been retired 20 years, or who have 20 years of service and have been retired 25 years. Plan 1 members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits. If a survivor option is chosen, the benefit is further reduced. A cost-of-living allowance (COLA) was granted at age 66 based upon years of service times the COLA amount. This benefit was eliminated by the Legislature, effective July 1, 2011. Plan 1 members may elect to receive an optional COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 provides duty and non-duty disability benefits. Duty disability retirement benefits for disablement prior to the age of 60 consist of a temporary life annuity payable to the age of 60. The allowance amount is \$350 a month, or two-thirds of the monthly AFC, whichever is less. The benefit is reduced by any workers' compensation benefit and is payable as long as the member remains disabled or until the member attains the age of 60. A member with five years of covered employment is eligible for non-duty disability retirement. Prior to the age of 55, the allowance amount is 2 percent of the AFC for each year of service reduced by 2 percent for each year that the member's age is less than 55. The total benefit is limited to 60 percent of the AFC and is actuarially reduced to reflect the choice of a survivor option. A cost-of-living allowance was granted at age 66 based upon years of service times the COLA amount. This benefit was eliminated by the Legislature, effective July 1, 2011. Plan 1 members may elect to receive an optional COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 members can receive credit for military service. Members can also purchase up to 24 months of service credit lost because of an on-the-job injury.

PERS Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members are eligible for normal retirement at the age of 65 with five years of service. The monthly benefit is 2 percent of the AFC per year of service. (AFC is the monthly average of the 60 consecutive highest-paid service months.)

PERS Plan 2 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 reduced benefit. The benefit is reduced by an early retirement factor (ERF) that varies according to age, for each year before age 65.

PERS Plan 2 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 3 percent for each year before age 65.
- With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

PERS Plan 2 retirement benefits are also actuarially reduced to reflect the choice, if made, of a survivor option. There is no cap on years of service credit; and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually.

The surviving spouse or eligible child or children of a PERS Plan 2 member who dies after leaving eligible employment having earned ten years of service credit may request a refund of the member's accumulated contributions.

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component and member contributions finance a defined contribution component. The defined benefit portion provides a monthly benefit that is 1 percent of the AFC per year of service. (AFC is the monthly average of the 60 consecutive highest-paid service months.)



Effective June 7, 2006, PERS 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 twelve months of that service are earned after age 44; or after five service credit years earned in PERS Plan 2 prior to June 1, 2003. Plan 3 members are immediately vested in the defined contribution portion of their plan.

Vested Plan 3 members are eligible for normal retirement at age 65, or they may retire early with the following conditions and benefits:

- If they have at least ten service credit years and are 55 years old, the benefit is reduced by an ERF that varies with age, for each year before age 65.
- If they have 30 service credit years and are at least 55 years old, they have the choice of a benefit that is reduced by 3 percent for each year before age 65; or a benefit with a smaller (or no) reduction factor (depending on age) that imposes stricter return-to-work rules.

PERS Plan 3 defined benefit retirement benefits are also actuarially reduced to reflect the choice, if made, of a survivor option. There is no cap on years of service credit and Plan 3 provides the same cost-of-living allowance as Plan 2.

PERS Plan 3 defined contribution retirement benefits are solely dependent upon contributions and the results of investment activities.

The defined contribution portion can be distributed in accordance with an option selected by the member, either as a lump sum or pursuant to other options authorized by the Director of the Department of Retirement Systems.

PERS Plan 2 and Plan 3 provide disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 monthly benefit amount is 2 percent of the AFC per year of service. For Plan 3, the monthly benefit amount is 1 percent of the AFC per year of service.

These disability benefit amounts are actuarially reduced for each year that the member's age is less than 65, and to reflect the choice of a survivor option. There is no cap on years of service credit, and a cost-of-living allowance is granted (based on the Consumer Price Index) capped at 3 percent annually.

PERS Plan 2 and Plan 3 members may have up to ten years of interruptive military service credit; five years at no cost and five years that may be purchased by paying the required contributions. Effective July 24, 2005, a member who becomes totally incapacitated for continued employment while serving the uniformed services, or a surviving spouse or eligible children, may apply for interruptive military service credit. Additionally, PERS Plan 2 and Plan 3 members can also purchase up to 24 months of service credit lost because of an on-the-job injury.

PERS members may also purchase up to five years of additional service credit once eligible for retirement. This credit can only be purchased at the time of retirement and can be used only to provide the member with a monthly annuity that is paid in addition to the member's retirement benefit.

Beneficiaries of a PERS Plan 2 or Plan 3 member with ten years of service who is killed in the course of employment receive retirement benefits without actuarial reduction, if the member was not at normal retirement age at death. This provision applies to any member killed in the course of employment, on or after June 10, 2004, if found eligible by the Department of Labor and Industries.

A one-time duty-related death benefit is provided to the estate (or duly designated nominee) of a PERS member who dies in the line of service as a result of injuries sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of said member's covered employment, if found eligible by the Department of Labor and Industries.

#### *Judicial Benefit Multiplier*

During January 1, 2007 through December 31, 2007, judicial members of PERS were given the choice to participate in the Judicial Benefit Multiplier Program (JBM) enacted in 2006. Justices and judges in PERS Plan 1 and Plan 2 were able to make a one-time irrevocable election to pay increased contributions that would fund a retirement benefit with a 3.5 percent multiplier. The benefit would be capped at 75 percent of AFC. Judges in PERS Plan 3 could elect a 1.6 percent of pay per year of service benefit, capped at 37.5 percent of AFC.

Members who chose to participate in JBM would accrue service credit at the higher multiplier beginning with the date of their election; be subject to the benefit cap of 75 percent of AFC, pay higher contributions; stop contributing to the Judicial Retirement Account (JRA); and be given the option to increase the multiplier on past judicial service. Members who did not choose to participate would continue to accrue service credit at the regular multiplier; continue to participate in JRA, if applicable; never be a participant in the JBM Program; and continue to pay contributions at the regular PERS rate.

Newly elected or appointed justices and judges who chose to become PERS members on or after January 1, 2007, or who had not previously opted into PERS membership, were required to participate in the JBM Program. Members required into the JBM program would return to prior PERS Plan if membership had previously been established; be mandated into Plan 2 and not have a Plan 3 transfer choice, if a new PERS member; accrue the higher multiplier for all judicial service; not contribute to JRA; and not have the option to increase the multiplier for past judicial service.

There are 1,176 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2014:

Retirees and beneficiaries receiving benefits	83,328
Terminated plan members entitled to but not yet receiving benefits	31,047
Active plan members vest	150,706
Terminated plan members nonvested	101,191
<b>Total</b>	<b>368,272</b>

### Funding Policy

Each biennium, the state Pension Funding Council adopts PERS Plan 1 employer contribution rates, PERS Plan 2 employer and employee contribution rates, and PERS Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent for state agencies and local government unit employees, and at 7.5 percent for state government elected officials. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. All employers are required to contribute at the level established by the Legislature. Under PERS Plan 3, employer contributions finance the defined benefit portion of the plan and member contributions finance the defined contribution portion. The Plan 3 employee contribution rates range from 5 percent to 15 percent, based on member choice. Two of the options are graduated rates dependent on the employee's age. As a result of the implementation of the Judicial Benefit Multiplier Program in January 2007, a second tier of employer and employee rates was developed to fund, along with investment earnings, the increased retirement benefits of those justices and judges that participate in the program. The methods used to determine the contribution requirements are established under state statute in accordance with Chapters 41.40 and 41.45 RCW.

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2013, are as follows:

Members not participating in JBM:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	9.21%*	9.21%	9.21%**
Employee	6.00%	4.92%	***

\* The employer rates include the employer administrative expense fee currently set at 0.18%.

\*\* Plan 3 defined benefit portion only.

\*\*\* Variable from 5.0% to 15.0% maximum based on rate selected by the PERS 3 member.

Members participating in JBM:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	9.21%*	9.21%	9.21%**
Employee	12.26%	12.30%	7.50***

\* The employer rates include the employer administrative expense fee currently set at 0.18%.

\*\* Plan 3 defined benefit portion only.

\*\*\* Minimum Rate

Both the City and employees made the required contributions. The City's required contributions for the years ended December 31 were:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2014	\$ 0	\$ 905,173	\$ 203,877
2013	\$ 779	\$ 775,972	\$ 150,523
2012	\$ 1,588	\$ 708,790	\$ 132,404

## **Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) Plans 1 and 2**

### Plan Description

The Legislature established LEOFF in 1970. Membership in the system includes all full-time, fully compensated, local law enforcement commissioned officers, firefighters and, as of July 24, 2005, emergency medical technicians. LEOFF membership is comprised primarily of non-state employees, with Department of Fish and Wildlife enforcement officers, who were first included prospectively effective July 27, 2003, being an exception. LEOFF retirement benefit provisions are established in Chapter 41.26 RCW and may be amended only by the State Legislature.

LEOFF is a cost-sharing multiple-employer retirement system comprised of two separate defined benefit plans. LEOFF members who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 are Plan 2 members.

LEOFF defined benefit retirement benefits are financed from a combination of investment earnings, employer and employee contributions, and a special funding situation in which the state pays through state legislative appropriations.

Effective July 1, 2003, the LEOFF Plan 2 Retirement Board was established by Initiative 790 to provide governance of LEOFF Plan 2. The Board's duties include adopting contribution rates and recommending policy changes to the Legislature for the LEOFF Plan 2 retirement plan.

Plan 1 retirement benefits are vested after an employee completes five years of eligible service. Plan 1 members are eligible for retirement with five years of service at the age of 50. The benefit per year of service calculated as a percent of final average salary is as follows:

<u>Term of Service</u>	<u>Percent of Final Average</u>
20 or more years	2.0%
10 but less than 20 years	1.5%
5 but less than 10 years	1.0%

The final average salary 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 10 years of service. A cost-of-living allowance is granted (based on the Consumer Price Index).

LEOFF Plan 1 provides death and disability benefits. Death benefits for survivors of Plan 1 members on active duty consist of the following: (1) If eligible spouse, 50 percent of the FAS, plus 5 percent of FAS for each eligible surviving child, with a limitation on the combined allowances of 60 percent of the FAS; or (2) If no eligible spouse, eligible children receive 30 percent of FAS for the first child plus 10 percent for each additional child, subject to a 60 percent limitation of FAS, divided equally.

A one-time duty-related death benefit is provided to the estate (or duly designated nominee) of a LEOFF Plan 1 member who dies as a result of injuries or illness sustained in the course of employment, if found eligible by the Department of Labor and Industries.

The LEOFF Plan 1 disability allowance is 50 percent of the FAS plus 5 percent for each child up to a maximum of 60 percent. Upon recovery from disability before the age of 50, a member is restored to service with full credit for service while disabled. Upon recovery after the age of 50, the benefit continues as the greater of the member's disability allowance or service retirement allowance.

LEOFF Plan 1 members may purchase up to five years of additional service credit once eligible for retirement. This credit can only be purchased at the time of retirement and can be used only to provide the member with a monthly annuity that is paid in addition to the member's allowance.

LEOFF Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members may retire at the age of 50 with 20 years of service, or at the age of 53 with five years of service, with an allowance of 2 percent of the FAS per year of service. (FAS is based on the highest consecutive 60 months). Plan 2 members who retire prior to the age of 53 receive reduced benefits. Benefits are actuarially reduced for each year that the benefit commences prior to age 53 and to reflect the choice of a survivor option. If the member has at least 20 years of service and is age 50, the reduction is 3 percent for each year prior to age 53. A cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually.

LEOFF Plan 2 provides disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 allowance amount is 2 percent of the FAS for each year of service. Benefits are actuarially reduced for each year that the member's age is less than 53, unless the disability is duty-related, and to reflect the choice of a survivor option. If the member has at least 20 years of service and is age 50, the reduction is 3 percent for each year prior to age 53. A catastrophic disability benefit equal to 70 percent of their FAS, subject to offsets for workers' compensation and Social Security disability benefits received, is also available to those LEOFF Plan 2 members who are severely disabled in the line of duty and incapable of future substantial gainful employment in any capacity.

Effective June 2010, benefits to LEOFF Plan 2 members who are catastrophically disabled include payment of eligible health care insurance premiums.

Members of LEOFF Plan 2 who leave service because of a line of duty disability are allowed to withdraw 150 percent of accumulated member contributions. This withdrawal benefit is not subject to federal income tax. Alternatively, members of LEOFF Plan 2 who leave service because of a line of duty disability may be eligible to receive a retirement allowance of at least 10 percent of FAS and 2 percent per year of service beyond five years. The first 10 percent of the FAS is not subject to federal income tax.

LEOFF Plan 2 retirees may return to work in an eligible position covered by another retirement system, choose membership in that system and suspend their pension benefits, or not choose membership and continue receiving pension benefits without interruption.

LEOFF Plan 2 members who apply for retirement may purchase up to five years of additional service credit. The cost of this credit is the actuarial equivalent of the resulting increase in the member's benefit.

LEOFF Plan 2 members can receive service credit for military service that interrupts employment. Additionally, LEOFF Plan 2 members who become totally incapacitated for continued employment while servicing in the uniformed services may apply for interruptive military service credit. Should any such member die during this active duty, the member's surviving spouse or eligible child (ren) may request service credit on behalf of the deceased member.

LEOFF Plan 2 members may also purchase up to 24 consecutive months of service credit for each period of temporary duty disability.

Beneficiaries of a LEOFF Plan 2 member who is killed in the course of employment receive retirement benefits without actuarial reduction, if found eligible by the Director of the Department of Labor and Industries.

Benefits to eligible surviving spouses and dependent children of LEOFF Plan 2 members killed in the course of employment include the payment of on-going health care insurance premiums paid to the Washington state Health Care Authority.

A one-time duty-related death benefit is provided to the estate (or duly designated nominee) of a LEOFF Plan 2 member who dies as a result of injuries or illness sustained in the course of employment, if found eligible by the Department of Labor and Industries.

There are 374 participating employers in LEOFF. Membership in LEOFF consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2013:

Retirees and beneficiaries receiving benefits	10,511
Terminated plan members entitled to but not yet receiving benefits	699
Active plan members vest	16,830
Terminated plan members nonvested	1,600
<b>Total</b>	<b>29,640</b>

## Funding Policy

Starting on July 1, 2000, LEOFF Plan 1 employers and employees contribute zero percent as long as the plan remains fully funded. Employer and employee contribution rates are developed by the Office of the State Actuary to fully fund the plan. LEOFF Plan 2 employers and employees are required to pay at the level adopted by the LEOFF Plan 2 Retirement Board. The Legislature, by means of a special funding arrangement, appropriated money from the state General Fund to supplement the current service liability and fund the prior service costs of LEOFF Plan 2 in accordance with the requirements of the Pension Funding Council and the LEOFF Plan 2 Retirement Board. However, this special funding situation is not mandated by the state constitution and this funding requirement could be returned to the employers by a change of statute.

The required contribution rates expressed as a percentage of current year covered payroll, as of December 31, 2014 were:

	LEOFF Plan 1	LEOFF Plan 2
Employer	0.18%*	5.23%**
Employee	0.00%	8.41%
State	N/A	3.45%

\* The employer rates include the employer administrative expense fee currently set at 0.18%.

\*\* The employer rate for ports and universities is 8.59%.

Both the City and employees made the required contributions. The City's required contributions for the years ended December 31 were:

	LEOFF Plan 1	LEOFF Plan 2
2014	\$ -	\$ 628,345
2013	\$ -	\$ 574,682
2012	\$ -	\$ 575,718

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

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

During 2014, there were a total of 295 individuals covered by this system. As of the end of the year, 302 remained as active employees of the City and four were drawing retirement benefits. The 20 inactive had left the City's employment and either had been reimbursed their contributions, or the reimbursement was pending, or they elected to have their contributions remain in the plan if the balance was \$1,000 or greater.

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

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

Covered payroll for 2014 was \$21,975,372 excluding PERS, LEOFF, FWRS, deferred comp, flex plan, and section 125 and total City payroll was \$25,956,942. Actual City contributions for the year were \$1,234,329. Actual employee contributions were \$1,499,596. All contributions were invested in instruments arranged through independent investment advisors selected by the Municipal Employers Benefit Trust (MEBT) committee comprised of the entities of Bellevue, Kirkland, Redmond, Edmonds, Mill Creek, Woodinville, Federal Way, and North East King County Regional Public Safety Communication Agency (NORCOM) but administered by Northwest Plan Services (NWPS). Retirement System assets are not the property of the City and are not subject to the claims of the City's general creditors. The Federal Way Retirement System assets are with Security Trust Company, N.A. who invests Plan assets. MEBT can be contacted for additional information at (877)-690-5410.

In July 1995, the City implemented the hardship withdrawal and loan provision program that allow participants to have limited access to their contributions while still employed by the City. Hardship withdrawals are available in the event of financial necessity resulting from uninsured medical expenses, tuition expenses, purchasing one's primary residence, or to prevent foreclosure on one's primary residence. Loans receivable as of December 31, 2014 were \$1,575,859.

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

## NOTE 9 – RISK MANAGEMENT

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

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

There were no settlements in excess of insurance for commercially insured activities for 1996 through 2014. The fund balance for the Risk Fund as of 12/31/2014 is \$1.35 million.

The following is a summary of coverage in force in 2014.

<b>SCHEDULE OF INSURANCE IN FORCE AS OF DECEMBER 31, 2014</b>			
<b>Company</b>	<b>Policy Period</b>	<b>Details of Coverage</b>	<b>Liability Limits</b>
Argonaut	12/31/14-12/31/15	General liability (auto, general, police, e & o, employment practices, & stop gap)	\$250,000 self-insured retention (SIR) with aggregate limits of \$10,000,000.
National Casualty	12/31/14-12/31/15	Excess liability	\$10,000,000 in excess of \$10,000,000 with aggregate limits of \$10,000,000.
Travelers	1/1/15-1/1/16	Crime/fidelity (employee theft, forgery or alternation, on premises, in transit, money orders and counterfeit money, computer crime, fund transfer fraud and claims expense)	Deductible ranges from \$5,000 to \$25,000 with single loss limits ranging from \$50,000 to \$1,000,000.

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

The City's unemployment insurance, where it has elected to become fully self-insured. Related premiums received by the Unemployment Insurance Fund is used to reimburse the State Employment Security Department for unemployment benefits paid to eligible individuals, and to establish reserves for the payment of estimated future unemployment claims liability. The City is self-insured for unemployment compensation. The weekly payments to an employee range from \$151 - \$637 depending upon the wages earned. At December 31<sup>st</sup>, 2014 the City had \$1,912,291 in reserve.



<b>Unemployment compensation benefits</b>	<b>2013</b>	<b>2014</b>
Unemployment reserve, Jan. 1st	\$ 1,529,657	\$ 1,685,026
Unemployment compensation benefits	223,510	242,207
Unemployment compensation interest	-	647
Claim payments during the year	(68,142)	(15,590)
<b>Unemployment reserve, Dec. 31st</b>	<b>\$ 1,685,026</b>	<b>\$ 1,912,291</b>

The City's also elected to self-insure for medical. Related premiums are received by the Health Insurance Fund and are used to reimburse weekly claims to the Group Health Corporation for medical benefits paid to the eligible individuals, and establish reserves for the payment of estimated future medical benefits claims liability. At December 31<sup>st</sup>, 2014 the City had \$1,031,753 in reserve.

<b>Health Insurance benefits</b>	<b>2014</b>
Health Insurance reserve, Jan. 1st	\$ -
Health Insurance benefits	3,958,828
Health Insurance Employee Contributions	214,481
Health Insurance COBRA Contributions	4,812
Health Insurance interest	431
Prescription Claim payments during the year	(498,763)
Medical Claim payments during the year	(1,982,077)
Other services and charges	(665,958)
<b>Health Insurance reserve, Dec. 31st</b>	<b>\$ 1,031,753</b>

#### **NOTE 10 – LONG-TERM LIABILITIES**

The various categories of long-term debt reflected on the City's financial statements are briefly described in the following paragraphs. Ratings are issued on the bond at the time of issuance. The ratings issued on City bonds are shown on page 68.

General obligation bonds are backed by the City's full faith and credit. Proceeds are typically used for the acquisition or construction of major capital facilities or equipment. "Councilmanic Bonds" are general obligation bonds issued by City Council without voter approval. Under State law, repayment of these bonds must be financed from general City revenues because no additional property taxes can be levied to support related debt service payments. General Obligation bonds approved by the voters are typically repaid through an annual "excess" property tax levy authorized for this purpose by State statute. At year-end 2014 the City had no voter-approved bonds outstanding. All principal and interest payments on general obligation debts are recorded as expenditures by the City's Debt Service Fund.

- A) On March 4, 2013 the City issued \$12,415,000 of general obligation refunding bonds with an average interest rate of 2.67 percent to provide resources to purchase U.S. Government and State and Local Government Series security that were placed in an irrevocable trust for the purpose of generating resources to advance refund on \$12,310,000 of outstanding 2003 GO Federal Way Community Center debt on December 1, 2013. As a result, the 2003 GO FWCC bonds are considered to be defeased and the liability has been removed from the governmental activities column of the statement of net position. This advance refunding was undertaken to reduce total debt service payments over the next twenty one years by \$2,322,943 and resulted in an economic gain of \$1,740,458. (Economic gain is the net present value of future savings between old and the new debt).
- B) On November 26, 2014 the City issued \$8,209,906 of general obligation Bond anticipation note with KeyBank to acquire the Target property with an interest only rate of 1.51 percent and principal due 12/01/2017. The funds were used to purchase the old Target property for downtown development. The bond will be paid off with the sale of the land in three years. Currently the bond calls for interest only payments before the bond is paid off.
- C) The City in conjunction with several South King County cities (Renton, Auburn, Tukwila, and Kent) agreed to build new dispatch facility known as Valley Communications Center. Total bond in 2000 was \$12.758 million. Valley Communications Center refinanced the 2000 bond in 2010 for \$5.325 million. The City of Federal Way portion at that time was \$1.065 million. The City will make its final payment 12/1/2015.
- D) The City in conjunction with several other South King County cities (Kent, Renton, Seatac, Des Moines) agreed to build a facility to hold its inmates. The total bond in 2009 was \$86.325 million and the City of Federal Way's portion at that time was \$15.522 million. In 2015 the facility was able to use its excess revenue from excess space rented to non-member cities to pay the bond in 2015.

SCORE and Valley Communications joint venture information can be found on pages 72 and 73.

The following schedules detail the long-term debt activity and balances of the City.

OUTSTANDING GENERAL OBLIGATION DEBT AND LONG-TERM LIABILITIES - BY TYPE DECEMBER 31, 2014									
Description	Bond Rating at Issuance	Issue Date	Maturity Date	Interest Rate	Amount Originally Issued	Beginning Outstanding Debt	Amount Issued	Amount Redeemed	Ending Outstanding Debt
Governmental Activities:									
<i>General Obligation Bonds:</i>									
A) 2014 KeyBank Bond Anticipation Note <sup>1</sup>	-	Nov 26, 14	Dec 01, 17	1.51	\$ -	\$ -	\$ 8,209,960	\$ -	\$ 8,209,960
B) 2013 Refund Ltd/Community Center <sup>2</sup>	Aa3	Dec 01, 13	Dec 01, 33	2.67	12,415,000	12,250,000	-	445,000	11,805,000
Subtotal GO Bonds:	-	-	-	-	12,415,000	12,250,000	8,209,960	445,000	20,014,960
Other Miscellaneous Debt-Intergovernmental:									
C) 2010 Limited/Valley Comm. PDA <sup>3</sup>	A1	Mar 05, 10	Dec 01, 15	3.00-4.00	1,065,000	432,000	-	212,000	220,000
D) 2009 SCORE/Special Obligation Bond <sup>4</sup>	A1/AA	Nov 04, 09	Jan 01, 39	3.00-6.62	15,522,300	14,826,600	-	358,200	14,468,400
Subtotal miscellaneous:	-	-	-	-	16,587,300	15,258,600	-	570,200	14,688,400
Subtotal GO Bonds plus Misc.					29,002,300	27,508,600	8,209,960	1,015,200	34,703,360
Compensated absences	-	-	-	-		1,577,612	2,014,302	1,760,373	1,831,541
Subtotal GO bonds, misc. & comp absences:	-	-	-	-	29,002,300	29,086,212	10,224,262	2,775,573	36,534,901
Business-Type Activities:									
<i>Public Works Trust Fund Loan:</i>									
PWTL - Kitts Corner Drain Imp	-	Aug 31, 94	Jul 01, 14	1.00	233,316	1,695	-	1,695	-
PWTL - Kitts Corner Drain Imp	-	Jul 24, 96	Jul 01, 14	1.00	1,166,580	68,155	-	68,155	-
PWTL - Kitts Corner Drain Imp	-	Sep 04, 97	Jul 01, 14	1.00	155,544	16,389	-	16,389	-
PWTL - SeaTac Mall Drain Imp	-	May 31, 00	Jul 01, 19	1.00	412,500	96,120	-	16,020	80,100
PWTL - SeaTac Mall Drain Imp	-	Aug 14, 00	Jul 01, 19	1.00	2,062,500	480,599	-	80,099	400,500
Subtotal PWTFL	-	-	-	-	4,030,440	662,958	-	182,358	480,600
Compensated absences	-	-	-	-	-	71,733	97,809	84,650	84,892
Subtotal PWTFL plus compensated absences:	-	-	-	-	4,030,440	734,691	97,809	267,008	565,492
<b>Grand Total All Long-Term Debt:</b>	-	-	-	-	<b>\$ 33,032,740</b>	<b>\$ 29,820,903</b>	<b>\$ 10,322,071</b>	<b>\$ 3,042,581</b>	<b>\$ 37,100,393</b>

On November 26, 2014 the City issued \$8,209,906 of general obligation bond anticipation note with KeyBank with an interest only rate of 1.51 percent and principal due 12/01/2017. <sup>2</sup>The ending 2014 refunding Community Center bond premium is \$397,176 with current year amortization of \$11,539. <sup>3</sup>Debt service principal payments in Debt Service Fund include credits of \$31,800 from Interlocal agreement with Federal Way Fire District to participate in capital cost obligations with Valley Communications joint venture with the City of Federal Way. <sup>4</sup>The \$492 thousand adjustment is due to reporting SCORE debt at 18% debt service allocation to owner cities instead of 17%. Currently the City has an inter-local agreement with Des Moines where they contribute 1% to the City of Federal Way SCORE Debt.



OUTSTANDING GENERAL OBLIGATION DEBT AND LONG-TERM LIABILITIES - BY FUND DECEMBER 31, 2014						
Description	Amount Originally Issued	Beginning Outstanding Debt	Amount Issued	Amount Redeemed	Ending Outstanding Debt	Due within one year
Governmental Long-Term Debt:						
General Obligation Bonds:						
A) 2014 KeyBank Bond Anticipation Note 1	\$ -	\$ -	\$ 8,209,960	\$ -	\$ 8,209,960	\$ -
B) 2013 Refund Ltd/Community Center 2	12,415,000	12,250,000	-	445,000	11,805,000	455,000
Subtotal GO Bonds:	12,415,000	12,250,000	8,209,960	445,000	20,014,960	455,000
Other Miscellaneous Debt-Intergovernmental:						
C) 2010 Limited/Valley Comm. PDA3	1,065,000	432,000	-	212,000	220,000	220,000
D) 2009 SCORE/Special Obligation Bond4	15,522,300	14,826,600	-	358,200	14,468,400	371,700
Subtotal miscellaneous:	16,587,300	15,258,600	-	570,200	14,688,400	591,700
Subtotal GO Bonds plus Misc.	29,002,300	27,508,600	8,209,960	1,015,200	34,703,360	1,046,700
Compensated absences	-	1,577,612	2,014,302	1,760,373	1,831,541	121,723
Subtotal GO bonds, misc. & comp absences:	29,002,300	29,086,212	10,224,262	2,775,573	36,534,901	1,168,423
Business-Type Activities:						
Enterprise Funds:						
Public Works Trust Fund Loan	4,030,440	662,958	-	182,358	480,600	96,120
Subtotal Bus-Type Long-Term Debt	4,030,440	662,958	-	182,358	480,600	96,120
Compensated absences	-	71,733	97,809	84,650	84,892	5,688
Total Bus-Type plus comp. absences LTD:	4,030,440	734,691	97,809	267,008	565,492	101,808
<b>Grant Total All Long-Term Debt:</b>	<b>\$ 33,032,740</b>	<b>\$ 29,820,903</b>	<b>\$ 10,322,071</b>	<b>\$ 3,042,581</b>	<b>\$ 37,100,393</b>	<b>\$ 1,270,231</b>

SCHEDULE OF CHANGES IN LONG-TERM LIABILITIES PERIOD ENDED DECEMBER 31, 2014					
	Beginning Outstanding Debt	Additions	Reductions	Ending Outstanding Debt	
Governmental Activities:					
General Obligation Bonds	\$ 12,250,000	\$ 8,209,960	\$ (445,000)	\$ 20,014,960	
Other-intergovernmental debt	15,258,600	-	(570,200)	14,688,400	
Compensated absences	1,577,612	2,014,302	(1,760,373)	1,831,541	
Total Governmental Activities	29,086,212	10,224,262	(2,775,573)	36,534,901	
Business-Type Activities:					
Enterprise Funds					
Public Works Trust Fund Loan	662,958	-	(182,358)	480,600	
Compensated absences	71,733	97,809	(84,650)	84,892	
Total Business-Type Activities	734,691	97,809	(267,008)	565,492	
<b>Total All Funds</b>	<b>\$ 29,820,903</b>	<b>\$ 10,322,071</b>	<b>\$ (3,042,581)</b>	<b>\$ 37,100,393</b>	

SCHEDULE OF DEBT SERVICE REQUIREMENTS TO MATURITY AS OF DECEMBER 31, 2014							
Year	Government Activities		Business-Type Activities		Grand Total		
	General Governmental Debt		Public Work Trust Fund				
	Principal	Interest	Principal	Interest	Principal	Interest	P&I
2015	\$ 1,046,700	\$ 1,089,689	\$ 96,120	\$ 4,806	\$ 1,142,820	\$ 1,094,495	\$ 2,237,314
2016	856,100	1,051,845	96,120	3,845	952,220	1,055,689	2,007,909
2017	9,098,160	1,020,026	96,120	2,884	9,194,280	1,022,909	10,217,189
2018	915,800	867,368	96,120	1,922	1,011,920	869,291	1,881,210
2019	944,300	838,854	96,120	961	1,040,420	839,816	1,880,235
2020	973,700	809,452	-	-	973,700	809,452	1,783,152
2021-2025	5,490,100	3,476,236	-	-	5,490,100	3,476,236	8,966,336
2026-2030	6,541,800	2,484,798	-	-	6,541,800	2,484,798	9,026,598
2031-2035	6,161,900	1,230,606	-	-	6,161,900	1,230,606	7,392,506
2036-2039	2,674,800	233,306	-	-	2,674,800	233,306	2,908,106
<b>Total</b>	<b>\$ 34,703,360</b>	<b>\$ 13,102,180</b>	<b>\$ 480,598</b>	<b>\$ 14,418</b>	<b>\$ 35,183,958</b>	<b>\$ 13,116,598</b>	<b>\$ 48,300,556</b>

### Computation of Legal Debt Margin

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

The City's legally remaining debt capacities as of December 31, 2014 are:

General government (no vote required)	\$ 92,631,358
General government (3/5 majority vote required)	83,190,592
Parks and open space (3/5 majority vote required)	207,976,480
Utilities (3/5 majority vote required)	207,976,480
<b>Total Capacity</b>	<b>\$ 591,774,910</b>

### Compensated Absences

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

<u><i>Governmental Activities:</i></u>	
Current portion	\$ 121,723
Noncurrent portion	1,709,818
<u><i>Business-Type Activities:</i></u>	
Current portion	5,688
Noncurrent portion	79,204
<b>Total Compensated absences</b>	<b>\$ 1,916,433</b>

### Estimated Arbitrage Rebate

The Federal Tax Reform Act of 1986 requires issuers of tax-exempt debt of over \$5 million to make payments to the United States Treasury of investment interest received at yields that exceed the issuer's tax-exempt borrowing rates. Payments of arbitrage rebate amounts due under these regulations must be made to the U.S. Treasury every five years. The City's estimated rebatable arbitrage amount as of December 31, 2014 is \$-0- for its tax-exempt general obligation bond issues subject to the Tax Reform Act issued through that date.

## NOTE 11 – INTERFUND TRANSACTIONS

Interfund transfers for the year ended December 31, 2014 were as follows:

Interfund Transfers	In	Out
Governmental Funds:		
General Fund	\$ 10,619,159	\$ 3,641,682
Street Fund	3,600,567	-
Utility Tax Fund	1,735,831	13,888,383
Debt Service	25,169	3,217,000
Downtown Redevelopment	300,000	4,209,763
Transportation	1,598,000	5,726,278
Performing Arts & Event Center	9,944,763	-
Nonmajor Governmental Funds	12,617,302	7,923,492
Proprietary Funds:		
Surface Water Management	-	-
Dumas Bay Centre	116,000	-
Internal Service Funds	1,764,833	3,715,026
<b>Total:</b>		<b>\$42,321,624</b>

The following describes the amounts transferred out during 2014:

### General Fund:

- \$3,073,432 to Street Fund to subsidize street maintenance and operations
- \$34,082 to Information Systems Fund for public defenders case management system
- \$25,000 to Federal Way Community Center for use of facilities by General Parks and Recreation
- \$4,000 to Dumas Bay Center for pump station
- \$25,169 Debt Service Fund for SCORE Bonds
- \$480,000 to Capital Reserve Fund

### Utility Tax Fund:

- \$3,293,000 to General Fund for ongoing support of operations
- \$600,000 to General Fund for redirect overlay
- \$607,000 to General Fund for Public Safety Positions
- \$22,663 to General Fund for Red, Whites & Blues Festival
- \$73,337 to General Fund for Arts Commission
- \$58,432 to General Fund for Mayor's Office operations
- \$173,458 to General Fund for Court operations
- \$42,924 to General Fund for Human Resources operations
- \$209,952 to General Fund for Law operations
- \$2,293,556 to General Fund for Police Positions
- \$37,500 to General Fund for Safecity
- \$115,482 to General Fund for Parks maintenance and operations
- \$301,944 to Federal Way Community Center for maintenance and operations
- \$5,210,000 to PACC CIP project
- \$300,000 to Downtown Redevelopment CIP project
- \$224,000 to General Fund for Celebration Park maintenance & operations
- \$48,000 to General Fund for new Parks maintenance and operations
- \$165,135 to Street Fund for maintenance and operations
- \$112,000 to Dumas Bay Centre Fund for Knutzen Family Theatre subsidy

### Debt Service Fund:

- \$2,000,000 to Real Estate Excise Tax Fund for reserves
- \$1,217,000 to Real Estate Excise Tax Fund for CIP projects

**Downtown Redevelopment Fund:**

- \$2,000,000 to PACC for LIFT local match
- \$710,965 to PACC for utility tax balance
- \$1,498,798 to PACC for LIFT sales tax

**Transportation System Fund:**

- \$32,000 to Street Fund for equipment purchase
- \$50,000 to Arterial Street Fund for CIP projects
- \$1,254,670 to Utility Tax Fund for unspent amount from completed projects
- \$4,389,608 to REET Fund for unspent amount from completed project

**Internal Service:**

- \$30,000 from Risk Management to General Fund for Court Security
- \$1,685,026 from Risk Management to Unemployment Insurance Fund for reserve
- \$2,000,000 from Risk Management to General Fund for committed strategic opportunity reserve

**Nonmajor Fund:**

- \$47,212 from Traffic Safety Fund to General Fund for support of Municipal Court
- \$450,000 from Traffic Safety Fund to General Fund for support of Police Department
- \$200,000 from Traffic Safety Fund to General Fund for support of 2.0 FTE police offers
- \$330,000 from Traffic Safety Fund to Street Fund for support of Traffic Services
- \$50,000 from Traffic Safety Fund to General Fund for support of Nick & Derek DUI patrol
- \$16,000 from Traffic Safety Fund to General Fund for police downtown substation signage
- \$6,435 from Traffic Safety Fund to Information System Fund for Police equipment
- \$39,290 from Traffic Safety Fund to Information System Fund for Police license plate readers
- \$998,000 from Real Estate Excise Tax (REET) Fund to Arterial Street Fund for street overlay
- \$1,598,000 from REET Fund to Transportation CIP for 320<sup>th</sup> Street @ 20<sup>th</sup> Ave South project
- \$100,000 from REET Fund to Parks CIP for major parks facilities maintenance
- \$100,000 from REET Fund to Parks CIP for trail and pedestrian access improvement
- \$100,000 from REET Fund to Parks CIP for Lakota Soccer Field Upgrade
- \$2,698,751 from REET Fund to Parks CIP for downtown park project
- \$525,000 from REET Fund to PACC for capital project
- \$26,643 from CDBG Fund to General Fund for Recreation Inclusive Coordinator
- \$157,000 from Paths & Trails Fund to Parks CIP for Trail and Pedestrian Access Improvements
- \$481,161 from City Facility Fund to Utility Tax Fund for unspent amount from completed project

Interfund loans for the year ended December 31, 2014 were as follows:

Interfund Loans	Receivable	Payable
General Fund	\$ 10,000	\$ -
Special Revenue Funds:		
Community Development Block Grant	-	10,000
<b>Total Interfund Loans</b>	<b>\$ 10,000</b>	<b>\$ 10,000</b>

**NOTE 12 – CONTINGENCIES AND LITIGATION**

As of December 31, 2014 there were a small number of claims for damages and lawsuits pending against the City. In the opinion of the City Attorney, however, neither the potential liability for any single claim or lawsuit, nor the aggregate potential liability arising from all actions currently pending would materially affect the financial condition of the City. Due to both their uncertainty and immateriality, no liabilities or estimated liabilities have been included in the City's financial statements.

**NOTE 13 – JOINT VENTURES**

**Valley Communication Center**

The "Valley Communications Center" was established August 20, 1976, when an Interlocal Agreement was entered into by the four original participating municipal corporations, including the cities of Renton, Kent, Auburn, Tukwila, and Federal Way which was formally admitted in 2000. The agreement is sanctioned by the provisions and terms of the Interlocal Cooperation Act

pursuant to RCW 39.34. The initial duration of the agreement was five years, and thereafter was automatically extended for a consecutive five year-period.

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

The allocation of prorated financial participation among the five member cities is the percentage of dispatched calls attributed to each jurisdiction compared to the total estimated dispatched calls, for the current twelve month period ending December 31. The percentages are applied to the current approved budget, less revenue from all other sources. Distribution of the current year net income is based on the same percentages. The 2014 cost distributions for the five member cities are as follows:

City	Dispatchable Calls	Percent of Total
Kent	151,995	28.15%
Renton	109,645	20.31%
Auburn	119,731	22.17%
Tukwila	47,125	8.73%
Federal Way	111,474	20.64%
<b>Total</b>	<b>539,970</b>	<b>100.00%</b>

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

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

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

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

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

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

	Balances in 2014					
	Kent	Renton	Auburn	Tukwila	Federal Way	Total
Equity @ January 1, 2014	\$ 7,378,791	\$ 5,240,607	\$ 4,959,646	\$ 2,927,158	\$ 3,508,470	\$ 24,014,672
Current year increase	151,995	109,645	119,731	47,125	111,474	539,970
Equity @ December 31, 2014	\$ 7,530,786	\$ 5,350,252	\$ 5,079,377	\$ 2,974,283	\$ 3,619,944	\$ 24,554,642
Percent of equity	30.67%	21.79%	20.69%	12.11%	14.74%	100.00%
Prior year's percent of equity	30.73%	21.82%	20.65%	12.19%	14.61%	100.00%

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

### **South Correction Entity (SCORE)**

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

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

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

Summary of Debt Service Requirements										
Debt Service Schedule					Debt Service Allocation to Owner Cities					
Year	Principal	Interest	35% BABs		Auburn 31%	Burien 4%	Federal Way 18%	Renton 36%	SeaTac 3%	Tukwila 8%
			Subsidy	Total						
2015	\$ 1,990,000	\$ 4,995,069	\$ (1,514,410)	\$ 5,470,659	\$ 1,695,904	\$ 218,826	\$ 984,719	\$ 1,969,437	\$ 164,120	\$ 437,653
2016	2,065,000	4,911,886	(1,513,594)	5,463,292	1,693,621	218,532	983,393	1,966,785	163,899	437,063
2017	2,145,000	4,820,241	(1,503,576)	5,461,665	1,693,116	218,467	983,100	1,966,199	163,850	436,933
2018	2,240,000	4,715,979	(1,503,576)	5,452,403	1,690,245	218,096	981,433	1,962,865	163,572	436,192
2019	2,310,000	4,602,229	(1,467,237)	5,444,992	1,687,948	217,800	980,099	1,960,197	163,350	435,599
2020-2024	12,905,000	21,102,168	(7,183,090)	26,824,078	8,315,464	1,072,963	4,828,334	9,656,668	804,722	2,145,926
2025-2029	15,675,000	16,833,706	(6,067,796)	26,440,910	8,196,682	1,057,636	4,759,364	9,518,728	793,227	2,115,273
2030-2034	19,265,000	11,158,380	(4,128,483)	26,294,897	8,151,418	1,051,796	4,733,081	9,466,163	788,847	2,103,592
2035-2039	23,775,000	4,064,705	(1,697,914)	26,141,791	8,103,955	1,045,672	4,705,522	9,411,045	784,254	2,091,343
<b>Total</b>	<b>\$ 82,370,000</b>	<b>\$77,204,363</b>	<b>\$(26,579,676)</b>	<b>\$ 132,994,687</b>	<b>\$ 41,228,353</b>	<b>\$ 5,319,788</b>	<b>\$ 23,939,045</b>	<b>\$47,878,087</b>	<b>\$ 3,989,841</b>	<b>\$ 10,639,574</b>

\*Of the \$23,939,045 allocation to Federal Way, \$14,468,400 is for the principal portion and the remainder is for interest.



The City of Federal Way reports its share of equity interest in the Governmental Activities column within the Government-wide financial statements under non-current assets. The following is condensed (unaudited) financial information as of December 31, 2014 related to SCORE:

South Correction Entity (SCORE) 2014 Owner Cities Equity Allocation				
Member City	Percent of Equity	2013 Equity Balance	2014	
			Distribution	Equity Balance
Auburn	29.00%	\$ 2,517,237	\$ 1,725,997	\$ 4,243,234
Burien	3.00%	294,323	221,087	515,410
Des Moines	2.00%	107,970	184,190	292,160
Federal Way	25.00%	1,820,940	1,855,784	3,676,724
Renton	29.00%	2,548,219	1,672,186	4,220,405
SeaTac	5.00%	331,708	380,958	712,666
Tukwila	7.00%	601,934	478,536	1,080,470
<b>Total</b>	<b>100.00%</b>	<b>\$ 8,222,331</b>	<b>\$ 6,518,740</b>	<b>\$ 14,741,071</b>

A complete set of financial statements is available from: SCORE, 20817 17<sup>th</sup> Avenue South, Des Moines, WA 98198.

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

	Balance 1/1/2014	Prior Per Adj	Adj Bal 1/1/2014	Additions	Reductions	Balance 12/31/2014
Valley Communications Public Development Authority	\$ 432,000			\$ -	\$ (212,000)	\$ 220,000
SCORE Public Development Authority	14,334,400	492,200	14,826,600	-	(358,200)	14,468,400
<b>Total Balance Due to Other Governments</b>	14,766,400	492,200		-	(570,200)	14,688,400
Valley Communications Center	3,508,470			111,474	-	3,619,944
South Correctional Entity (SCORE)	1,820,940			1,855,784	-	3,676,724
<b>Total Joint Venture Capital Assets</b>	5,329,410			1,967,258	-	7,296,668
<b>Total Investment in Joint Ventures</b>	<b>\$ 20,095,810</b>	<b>\$ 492,200</b>		<b>\$ 1,967,258</b>	<b>\$ (570,200)</b>	<b>\$ 21,985,068</b>

The \$0.49 million adjustment is due to reporting SCORE debt at 18% debt service allocation to owner cities instead of 17%. Currently the City has an inter-local agreement with Des Moines where they contribute 1% to the City of Federal Way SCORE Debt.

#### **NOTE 14 – SUBSEQUENT EVENT**

On February 23, 2015 the City issued Request for Qualifications for Master Developer for Federal Way Town Center 3 which includes 7.48 acres of retail office, and residential development opportunities next to the Federal Way Transit Center. The City hired a Performing Arts & Event Center Executive Director on February 2015 to assist with the construction of the Performing Arts & Event Center and manage the center when completed.

#### **NOTE 15 – PRIOR PERIOD ADJUSTMENTS**

Governmental-type activity prior period adjustments of \$4,944,409 are required for depreciation adjustment for infrastructure added during GASB 34 implementation that were not depreciated for prior years. This includes depreciation for ACP roads of \$3.6 million, sidewalks of \$0.31 million, and curbs and gutters of \$0.99 million.

<b>Governmental Activity</b>	<b>Beginning Balance 1/1/2014</b>	<b>Prior Period Adjustment</b>	<b>Adjusted Beginning Balance</b>	<b>Additions</b>	<b>Deletions</b>	<b>Ending Balance 12/31/2014</b>
Capital assets, not being depreciated:						
Land	\$ 304,177,872	\$ -	\$ 304,177,872	\$ 8,729,473	\$ -	\$ 312,907,345
Construction in progress	14,380,488	-	14,380,488	9,186,947	(691,631)	22,875,804
Total capital assets, not being depreciated:	318,558,360	-	318,558,360	17,916,420	(691,631)	335,783,149
Capital assets, being depreciated						
Buildings	17,268,117	-	17,268,117	139,706	(8,039)	17,399,784
Improvements other than buildings	43,865,580	-	43,865,580	457,531	-	44,323,111
Infrastructure	164,610,040	-	164,610,040	703,434	-	165,313,474
Machinery and equipment	15,640,833	-	15,640,833	1,141,792	(461,636)	16,320,988
Total capital assets, being depreciated:	241,384,570	-	241,384,570	2,442,463	(469,675)	243,357,357
Less accumulated depreciation for :						
Buildings	(7,441,336)	-	(7,441,336)	(917,709)	8,039	(8,351,006)
Improvements other than buildings	(19,316,335)	-	(19,316,335)	(2,141,647)	-	(21,457,982)
Infrastructure	(41,135,411)	(4,944,409)	(46,079,820)	(5,255,338)	-	(51,335,158)
Machinery and equipment	(10,762,730)	-	(10,762,730)	(1,205,096)	461,637	(11,506,189)
Total accumulated depreciation:	(78,655,812)	(4,944,409)	(83,600,221)	(9,519,790)	469,676	(92,650,335)
Total assets being depreciated, net	162,728,758	(4,944,409)	157,784,349	(7,077,327)	1	150,707,022
Governmental activities capital assets, net	\$ 481,287,119	\$ (4,944,409)	\$ 476,342,710	\$ 10,839,093	\$ (691,630)	\$ 486,490,172

Business-type activity prior period classification adjustments of \$40,892,560 and \$12,908,033 are due to classification errors in reporting pipes, structures, catch basins, & manholes as improvements other than buildings.

<b>Business-Type Activities</b>	<b>Beginning Balance 1/1/2014</b>	<b>Prior Period Adjustment</b>	<b>Adjusted Beginning Balance</b>	<b>Additions</b>	<b>Deletions</b>	<b>Ending Balance 12/31/2014</b>
Capital assets, not being depreciated:						
Land	\$ 10,933,528	\$ -	\$ 10,933,528	\$ -	\$ -	\$ 10,933,528
Construction in progress	3,237,352	-	3,237,352	153,463	-	3,390,815
Total capital assets, not being depreciated:	14,170,880	-	14,170,880	153,463	-	14,324,343
Capital assets, being depreciated						
Buildings	3,600,864	-	3,600,864	-	-	3,600,864
Improvements other than buildings	47,972,459	(40,892,560)	7,079,899	-	-	7,079,899
Infrastructure	1,916,645	40,892,560	42,809,205	-	-	42,809,205
Machinery and equipment	122,200	-	122,200	-	-	122,200
Total capital assets, being depreciated:	53,612,167	-	53,612,167	-	-	53,612,167
Less accumulated depreciation for :						
Buildings	(2,980,066)	-	(2,980,066)	(150,742)	-	(3,130,808)
Improvements other than buildings	(13,286,649)	12,908,033	(378,616)	(69,570)	-	(448,186)
Infrastructure	(138,974)	(12,908,033)	(13,047,007)	(430,858)	-	(13,477,865)
Machinery and equipment	(94,310)	-	(94,310)	(5,515)	-	(99,825)
Total accumulated depreciation:	(16,499,999)	-	(16,499,999)	(656,685)	-	(17,156,684)
Total assets being depreciated, net	37,112,168	-	37,112,168	(656,685)	-	36,455,483
Business Type activities capital assets, net	\$ 51,283,048	\$ -	\$ 51,283,048	\$ (503,222)	\$ -	\$ 50,779,826

## NOTE 16 – LEASES

### Operating Leases

The City of Federal Way leases the office buildings for the downtown Police substation and WIFI site for operating leases. Total Cost for the leases was \$3,720 for the year ended December 31, 2014. The future minimum lease payments for the downtown Police substation leases and WIFI site leases are as follows:

<b>Year Ending December 31</b>	<b>Amount</b>
2015	\$ 41,336
2016	41,900
2017	3,500
<b>Total:</b>	<b>\$ 86,736</b>



CITY OF FEDERAL WAY, WASHINGTON  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For Year Ended December 31, 2014

Federal Agency Pass-Thru Agency (if applicable)		CFDA	Other	Current Year
Federal Program Name	BARS Account	#	I.D. #	Expenditures
US Department of Housing and Urban Development Office of Community Planning and Development				
Pass-thru King County				
Community Development Block Grants/Entitlement Grants	119-7300-961-331-14-218	14.218	961	74,908
Community Development Block Grants/Entitlement Grants	119-7300-966-331-14-218	14.218	966	26,643
Community Development Block Grants/Entitlement Grants	119-7300-967-331-14-218	14.218	967	23,434
Community Development Block Grants/Entitlement Grants	119-7300-972-331-14-218	14.218	972	17,178
Community Development Block Grants/Entitlement Grants	119-7300-974-331-14-218	14.218	974	17,178
Community Development Block Grants/Entitlement Grants	119-7300-993-331-14-218	14.218	993	9,625
Community Development Block Grants/Entitlement Grants	119-7300-994-331-14-218	14.218	994	72,620
Community Development Block Grants/Entitlement Grants	119-7300-996-331-14-218	14.218	996	136,167
Community Development Block Grants/Entitlement Grants	119-7300-997-331-14-218	14.218	997	12,178
SUBTOTAL CFDA 14.218	REFER TO NOTE 2			389,931
US Department of Housing and Urban Development Office of Community Planning and Development				
Pass-thru Washington State Department of Commerce				
Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii	119-7300-992-333-14-228	14.228	992	152,059
SUBTOTAL CFDA 14.228	REFER TO NOTE 2			152,059
US Department of Transportation National Highway Traffic Safety Administration				
Pass-thru Washington Traffic Safety Commission				
State and Community Highway Safety	001-0000-090-333-20-600	20.600	DHGN	20,173
SUBTOTAL CFDA 20.600	REFER TO NOTE 2			20,173
US Department of Justice Bureau of Justice Assistance				
State Criminal Alien Assistance Program	001-0000-090-331-16-606	16.606	SCAAP	4,073
SUBTOTAL CFDA 16.606	REFER TO NOTE 2			4,073
US Department of Justice Bureau of Justice Assistance				
Bulletproof Vest Partnership Program	001-0000-090-331-16-607	16.607	BPV	5,619
SUBTOTAL CFDA 16.607	REFER TO NOTE 2			5,619
US Department of Justice Bureau of Justice Assistance				
Edward Byrne Memorial Justice Assistance Grant	001-0000-090-331-16-738	16.738	2010-DJ-BX-0624	34,082
Edward Byrne Memorial Justice Assistance Grant	001-0000-090-333-16-738	16.738	2012-DJ-BX-0526	19,670
Edward Byrne Memorial Justice Assistance Grant	001-0000-090-333-16-738	16.738	2013-DJ-BX-0715	5,666
SUBTOTAL CFDA 16.738	REFER TO NOTE 2			59,418
US Department of Justice Office of Community Oriented Policing Services				
Public Safety Partnership and Community Policing Grant	001-0000-090-331-16-710	16.710	#2010UMWX0338	78,206
SUBTOTAL CFDA 16.710	REFER TO NOTE 2			78,206
US Department of Transportation Federal Highway Administration				
Pass-thru Washington State DOT				
Highway Planning and Construction	306-4400-156-333-20-050	20.205	STPUL-1020(010)	2,931
Highway Planning and Construction	306-4400-165-333-20-050	20.205	STPUL-0099(126)	711,711
Highway Planning and Construction	306-4400-183-333-20-050	20.205	SRTS-1040(003)	22,953
Highway Planning and Construction	306-4400-184-333-20-050	20.205	HSIP-0005(308)	514,804
Highway Planning and Construction	306-4400-185-333-20-050	20.205	HSIP-1020(011)	229,482
Highway Planning and Construction	306-4400-186-333-20-050	20.205	HSIP-0099(123)	116,522
Highway Planning and Construction	306-4400-187-333-20-050	20.205	STPUL-1020(012)	1,002,285
Highway Planning and Construction	306-4400-189-333-20-050	20.205	SRTS-0443(007)	207,651
Highway Planning and Construction	306-4400-190-333-20-050	20.205	SRTS-0443(066)	592,022
SUBTOTAL CFDA 20.205	REFER TO NOTE 2			3,400,361
US Department of Homeland Security				
Pass-thru Military Department				
FEMA Grant	101-0000-000-333-97-036	97.036	n/a	-
Emergency Management Performance Grant	101-0000-000-333-97-042	97.042	n/a	36,793
SUBTOTAL CFDA 97.042	REFER TO NOTE 2			36,793

**Note 1.-BASIS OF ACCOUNTING**

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

**Note 2.- Program Costs**

The amounts shown as current year expenditures represent only the federal grant portion of the program cost.

## ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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