Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

Seattle Southside Regional Tourism Authority

King County

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

Published March 8, 2018

Report No. 1020906

Office of the Washington State Auditor
Pat McCarthy

March 8, 2018

Board of Directors
Seattle Southside Regional Tourism Authority
SeaTac, Washington

Report on Financial Statements

Please find attached our report on the Seattle Southside Regional Tourism Authority's financial statements.

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

Sincerely,

Pat McCarthy

Pat McCarthy
State Auditor
Olympia, WA

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Seattle Southside Regional Tourism Authority
King County
January 1, 2016 through December 31, 2016

Board of Directors
Seattle Southside Regional Tourism Authority
SeaTac, 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 and each major fund of the Seattle Southside Regional Tourism Authority, King County, Washington, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated February 13, 2018. As discussed in Note 10 to the financial statements, during the year ended December 31, 2016, the Authority implemented Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No.27.*

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the Authority'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 Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority'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 Authority'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 Authority's financial statements are free from material misstatement, we performed tests of the Authority'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 Authority'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 Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Pat McCarthy

Pat McCarthy

State Auditor

Olympia, WA

February 13, 2018

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Seattle Southside Regional Tourism Authority
King County
January 1, 2016 through December 31, 2016

Board of Directors
Seattle Southside Regional Tourism Authority
SeaTac, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities and each major fund of the Seattle Southside Regional Tourism Authority, King County, Washington, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed on page 9.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Authority'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 Authority'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 Seattle Southside Regional Tourism Authority, as of December 31, 2016, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As Discussed in Note 10 to the financial statements, in 2016, the Authority adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27.* Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information listed on page 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated February 13, 2018 on our consideration of the Authority'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 Authority's internal control over financial reporting and compliance.

Pat McCarthy

State Auditor

Olympia, WA

February 13, 2018

FINANCIAL SECTION

Seattle Southside Regional Tourism Authority
King County
January 1, 2016 through December 31, 2016

REQUIRED SUPPLEMENTARY INFORMATION

BASIC FINANCIAL STATEMENTS

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion & Analysis
December 31, 2016

INTRODUCTION

Seattle Southside Regional Tourism Authority's (RTA's) Management's Discussion & Analysis (MD&A) provides a narrative overview and analysis of the RTA's financial activities for the fiscal period ended December 31, 2016. This discussion and analysis is designed to assist the reader in focusing on significant financial issues and activities, changes in financial position and currently known facts. This information should be read in conjunction with both the financial statements and the notes to the financial statements.

The RTA is considered a component unit of the City of SeaTac and its financial information is discretely presented in the City's financial statements.

BASIS OF FINANCIAL INFORMATION

The RTA's government-wide financial statements have been prepared on the full accrual basis of accounting in conformity with Generally Accepted Accounting Principles (GAAP). The RTA's fund financial statements for a governmental fund have been prepared on the modified accrual basis of accounting in conformity with GAAP. A detailed discussion of the government-wide and fund financial statements can be found in later sections of the MD&A.

FINANCIAL HIGHLIGHTS

- The RTA's 2016 Ending Net Position on the government-wide Statement of Net Position was $2.9 million. The Ending Fund Balance in the General Fund was just over $2.9 million exceeding the RTA's 2016 adopted Budget's Ending Fund Balance of $1.1 million by $1.8 million.

- Tourism Promotion Area special assessments totaled $3.6 million, slightly exceeding budget estimates, for the period which ended December 31, 2016; Revenues included TPA special assessment receivables of $517 thousand due to a two-month accrual period.

- Governmental fund expenditures totaled $4.2 million for 2016 representing the first full year of operations for the RTA. Expenditures were $1 million, or 19.1%, below the RTA's expenditure budget of $5.2 million.

- The RTA implemented GASB Statement 68, *Accounting and Financial Reporting for Pensions,* adding $438 thousand in pension liabilities, $190 thousand in pension expense, $256 thousand in deferred outflows and $8 thousand in deferred inflows to the government-wide financial statements.

OVERVIEW OF THE FINANCIAL STATEMENTS

The RTA's financial statements are prepared on both a government-wide and an individual fund basis. Both perspectives allow for annual comparisons against other governments, improve the RTA's accountability and provide a comprehensive user friendly format to use in understanding the RTA's financial condition.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide the reader with an overview of the RTA's financial condition and activities as a whole. This broad overview is similar to the financial reporting for a private-sector business. The RTA's government-wide financial statements have only one column for governmental activities reporting only one type of function which is Tourism, categorized functionally as "Natural and Economic Environment."

The Statement of Net Position presents information on the difference between the RTA's assets plus deferred outflows of resources and liabilities plus deferred inflows of resources, highlighting the difference as net position. The Statement of Net Position is like the balance sheet of a private sector business. Over time, increases or decreases in net position may serve as a useful indicator of improvement or deterioration in the RTA's overall financial position.

The Statement of Activities was designed to show how the RTA's net position changed during the year. Similar to the Statement of Net Position, this financial statement includes only governmental activities. Revenues in the areas of charges for services, operating grants, and capital grants are matched to the proper program. The revenues generated by the program are then compared to the expenses for the program. The end result is the net expense or net revenue for that program. The net expense or net revenue shows if the program is self-supporting or if the program relies on general revenues. As required by GAAP, the RTA's main revenue source, TPA special assessments, is presented in the General Revenue section even though the law mandates that these funds be spent exclusively for tourism purposes. GAAP requires this presentation because these revenues are classified as "nonexchange" revenues.

All activity on the Statement of Activities is reported on the accrual basis of accounting. This means that revenues are reported when they are earned and expenses are reported when they are incurred, regardless of when cash is received or disbursed. Items like unused vacation leave are included in the Statement of Activities as an expense even though no cash has changed hands. The government-wide statements are located immediately following the Management's Discussion & Analysis.

Fund Financial Statements

The RTA's annual financial report also includes fund financial statements in addition to the government-wide financial statements. While the government-wide statements present the RTA's finances based on the type of activity (governmental only for the RTA), the fund financial statements are presented in columns by major fund. For the RTA, there is only one fund, a General Fund, and General Funds are always considered to be a major fund per GAAP. A fund is a fiscal and accounting entity with a self-balancing set of accounts used to account for specific activities and in the case of the RTA that activity is tourism.

Governmental funds are used to account for essentially the same functions that are reported as governmental activities in the government-wide financial statements. However, the basis of accounting is different between the governmental fund statements and the government-wide financial statements. The governmental fund statements focus on near term revenues and expenditures, while the government-wide financial statements include both near term and long term revenues and expenses. The information in the governmental fund statements can be used to evaluate the RTA's near term funding requirements and fiscal health. Comparing the governmental fund statements with the government-wide statements can assist the reader in understanding the long-term impact of the RTA's current year financing decisions. To assist in this comparison, reconciliations between the governmental fund statements and the government-wide statements are included in the Reconciliation of the Fund Balances of Governmental Funds to the Net Position of the Governmental Activities and in the Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities.

In 2016, the RTA maintained budgetary control over its operating funds through the adoption of an annual budget. Budgets are adopted at the fund level under Washington State law. A budgetary comparison schedule is presented for the General Fund in the Required Supplementary Information (RSI) section of this Annual Report.

Notes to the Financial Statements

The notes to the financial statements provide additional information that is important to a full understanding of the data in the government-wide and fund financial statements. The notes are located immediately following the basic financial statements:

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Statement of Net Position

Over a period of time, net position can be a useful indicator of the RTA's financial position. The table below is a condensed version of the RTA's Statement of Net Position:

Seattle Southside Regional Tourism Authority

Statement of Net Position

Assets:	2016	2015*
Current & other assets	$ 3,134,235	$ 2,455,858
Capital assets, net	206,310	37,447
Total Assets	3,340,545	2,493,305
Deferred Outflow of Resources:		
Pensions	255,588	-
Total Deferred Outflows of Resources	255,588	-
Liabilities:		
Long-term liabilities	508,277	15,419
Other liabilities	185,060	86,517
Total Liabilities	693,337	101,936
Deferred Inflow of Resources:		
Pensions	7,895	-
Total Deferred Inflows of Resources	7,895	-
Net Position:		
Investment in capital assets	206,310	37,447
Unrestricted	2,688,591	2,353,922
Total Net Position	$ 2,894,901	$ 2,391,369

Note: 2015 is the RTA's first year of operations and only reflects nine months of activity.

The RTA's assets and deferred outflow of resources exceeded liabilities and deferred inflow of resources by $2.9 million. The majority, 92.9%, of total net position is unrestricted while only 7.1% reflects the RTA's investment in capital assets. Investment in capital assets increased from 1.6% of net position to 7.1% in 2016 due to the purchase of furniture, equipment, trademarks and the development of a new website. The capital costs are startup capital purchases related to the recent establishment of the RTA. The unrestricted portion of net position declined by 5.5% as the investment in capital assets increased. Unrestricted net position is available for ongoing tourism operations and activities of the RTA.

Changes in Net Position

On the government-wide Statement of Activities, changes in net position shows the net change or the difference between the total revenue activity and the total expense activity that took place during the current reporting period. The change in net position figure is added to the beginning net position figure to derive an accumulated ending net position figure for the RTA since incorporation. This is quick way to evaluate the RTA's financial condition.

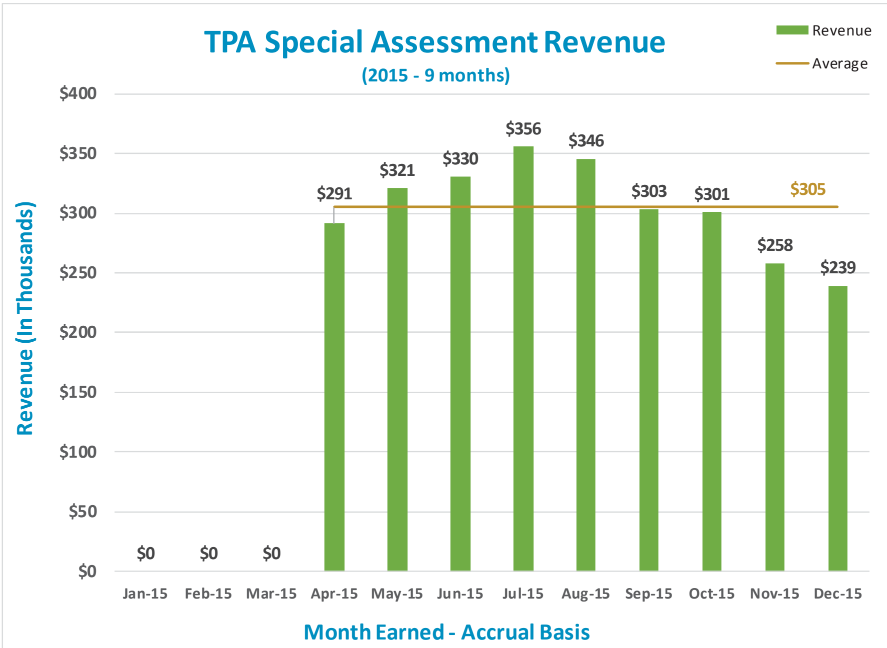
The table below represents a condensed version of the RTA's Statement of Activities. The table designates revenues as either program revenues or as general revenues. Program revenues are revenues generated by a specific function. Expenses are listed by program or a specific function. The change in net position is derived from netting the revenues against the expenses.

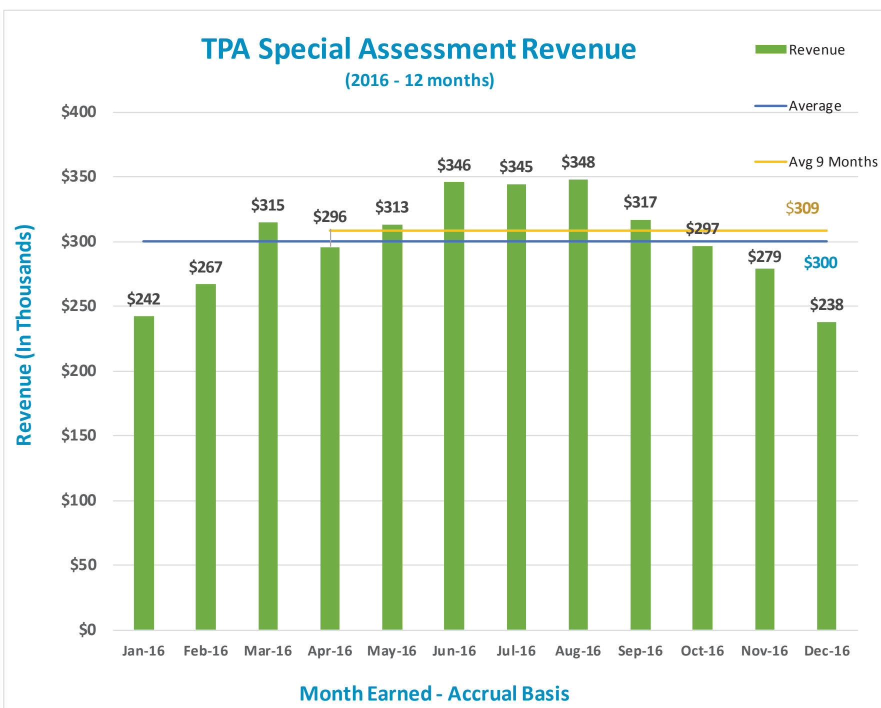
Seattle Southside Regional Tourism Authority
Statement of Activities

Revenue:	2016	2015*
Program Revenues:		
Charges for services	$ 16,876	$ 7,220
Operating grants & contributions	1,130,507	1,616
Capital grants & contributions	-	-
General Revenues:		
Tourism Promotion Area special assessments	3,602,592	2,717,423
Investment earnings	2,440	856
Total Revenues	4,752,415	2,727,115
Expenses:		
Natural & Economic Environment	4,248,883	335,746
Total Expenses	4,248,883	335,746
Increase (Decrease) in Net Position	503,532	2,391,369
Net Position-Beginning	2,391,369	-
Net Position-Ending	$ 2,894,901	$ 2,391,369

Note: 2015 is the RTA's first year of operations and includes only 9 months of revenues & six months of expenses.

In 2015, TPA special assessment revenues totaled $2.7 million for a period of nine months. As shown in the chart below, TPA special assessments averaged $305 thousand in 2015 with July 2015 being the highest month at $356 thousand and December 2015 being the lowest month at $239 thousand. In 2016, TPA special assessments totaled $3.6 million and averaged $300 thousand per month. Using a comparable 9-month comparison to 2015, 2016's average increased to $309 thousand or by 1.3%.





In 2016, 37 hotels with 6,917 rooms participated in the collection of the TPA special assessments. Special assessment revenue was budgeted at $3.6 million with actual revenues minimally exceeding this amount.

CAPITAL ASSETS & LONG-TERM DEBT

Capital Assets

In 2016, capital assets purchased by the RTA included additional workstation furniture, a copier, trademarks and the RTA is currently in the process of developing a new website to be completed in mid-2017. The RTA started the year with $37 thousand (net) in workstation furniture and ended the year with $206 thousand (net) in capital assets as shown in the table below. Additional information on capital assets is presented in *Note 1 – Summary of Significant Accounting Policies, Item F – Assets, Liabilities, Fund Balance & Net Position, Item #4 - Capital Assets.*

Seattle Southside Regional Tourism Authority's
Capital Assets

Capital Assets:	2016	2015*
Intangibles-Trademarks	$ 7,665	$ -
Software Under Development	137,775	-
Equipment	11,853	-
Furniture	56,165	37,762
Less: Depreciation	(7,146)	(315)
Total Capital Assets (Net)	$ 206,312	$ 37,447

Note: 2015 is the RTA's first year of operations and only reflects nine months of activity.

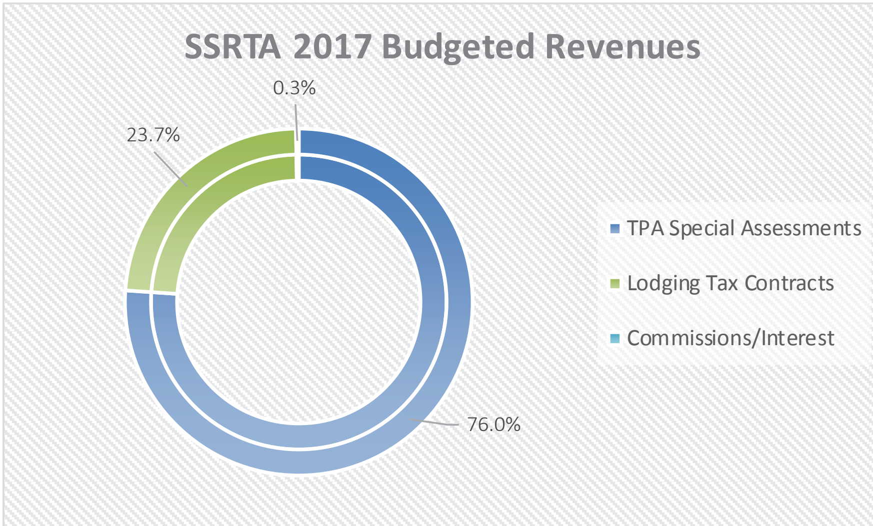
Long-Term Debt

Other than long-term liabilities like pension obligations, compensated absences and a building lease, the RTA has no outstanding long-term debt. In addition, the RTA does not currently have the power to issue negotiable bonds or notes per City of SeaTac Ordinance No. 14-1014 which established the RTA. In order to issue debt, a formal amendment to this Ordinance would be required which would be allowed by RCW 35.21.745. Additional information on long-term debt is presented in *Note 6 – Long-term Debt & Changes in Long-term Liabilities.*

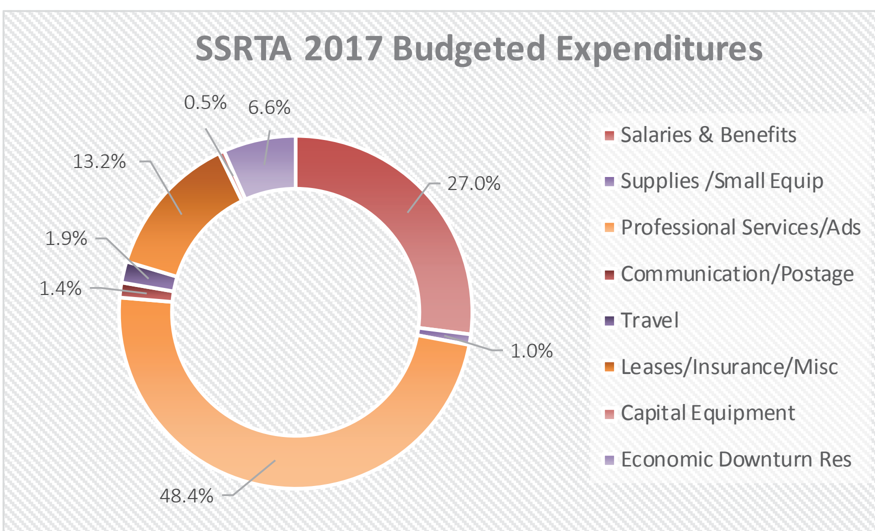
2017 BUDGET

For 2017, the RTA is projecting $1.6 million in ending fund balance in its General Fund which is no increase from the RTA's 2016 unassigned ending fund balance of $1.6 million. This is slightly down from the RTA's 2015 actual ending unassigned fund balance amount of $1.8 million.

2017 TPA special assessment revenues were budgeted at $3.6 million which reflects no increase over actual 2016 TPA special assessment revenues. The second largest revenue source in 2017 will be intergovernmental contracts for local lodging tax revenues from the cities of SeaTac, Tukwila and Des Moines totaling $1.1 million which is a slight decline from 2016. Commissions and interest are the smallest revenue budgets at $10 thousand and $2 thousand, respectively. The chart below depicts the RTA's 2017 revenue budget:



For 2017 expenditures, the RTA budget includes $2.9 million for professional services which includes advertising and promotions. This comprises the largest portion of the budget at 48.4%. The second highest expenditure budget is salaries & benefits at 27% and includes 16 full-time equivalent employees. A new item that has been included in 2017 is an expenditure appropriation for an economic downturn/recession reserve in the amount of $393 thousand. This economic downturn reserve will only be spent to maintain service levels if the economy enters a recessionary period and is 6.6% of total expenditures. The remaining budgeted expenditures for the RTA includes supplies at 1.0%, capital equipment at .5%, communication & postage at 1.4%, travel at 1.9%, and operating leases, insurance, maintenance and miscellaneous services which includes registration and memberships at 13.2%. The chart below depicts the RTA's 2017 budgeted expenditures as approved by the RTA Board via Resolution No. 2016-039:



ECONOMIC FACTORS & OUTLOOK

The 4th Quarter 2016 *Seattle Hotel Real Estate Market Review* for the Pacific Northwest published by Kidder Mathews reported that "With nearly 5,000 rooms under construction and many more planned, the current wave of hotel development in and near Seattle is about to crest. After several years of very strong performance, particularly in urban markets, we expect that the coming increase in supply will outpace growth in demand, reducing occupancy rates and intensifying price competition."

In Seattle Southside's Tourism Promotion Area (TPA) specifically, hotel construction and planned construction continue to show signs of strength as mid-2017 approaches. In the City of SeaTac, two hotels are currently in the planning stage (permits have not been issued) that will add 230 guestrooms to existing supply if they are built. In addition, six hotels are currently under construction which will increase inventory by 991 guestrooms in SeaTac. In the City of Tukwila, two hotels are currently under construction which will add 281 guestrooms and one more is in the planning stage with an estimated room count of 110. At this time, no new hotels are planned or are under construction in the City of Des Moines. The combined estimated guestroom increase (including planned and under construction) for the three cities is 1,612 rooms or a 23% increase in total supply for the RTA's Tourism Promotion Area.

REQUESTS FOR INFORMATION

This financial report was designed to provide a general overview of the RTA's finances for interested readers. Questions regarding any of the information in this report, or requests for additional information should be addressed to the Seattle Southside Regional Tourism Authority, Attention: CFO, 3100 S 176th Street, Suite 200, Seattle, WA 98188.

Seattle Southside Regional Tourism Authority

Statement of Net Position

December 31, 2016

		Governmental Activities
Assets		
Cash & cash equivalents	$	2,190,611
Receivables (net)		
Other current receivables		4,308
Due from other governments		866,828
Inventory-tickets		4,816
Prepaid items		57,672
Contract receivable-security deposit		10,000
Capital assets not being depreciated:		
Intangibles - Trademarks		7,665
Software under development		137,775
Capital assets (net of accumulated depreciation):		
Furniture		51,388
Equipment		9,482
Total Assets	$	3,340,545
Deferred Outflow of Resources		
Pensions		255,588
Total Deferred Outflow of Resources		255,588
Liabilities		
Accrued wages & benefits		70,067
Accrued expenses		83,857
Noncurrent Liabilities (Note 6):		
Due within one year		31,136
Due in more than one year		508,277
Total Liabilities		693,337
Deferred Inflow of Resources		
Pensions		7,895
Total Deferred Inflow of Resources		7,895
Net Position		
Investment in capital assets		206,310
Restricted		-
Unrestricted		2,688,591
Total Net Position	$	2,894,901

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

Seattle Southside Regional Tourism Authority

Statement of Activities

For the Period Ended December 31, 2016

		Program Revenues			Net (Expense) Revenue & Changes in Net Position
	Expenses	Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions	Governmental Activities
Functions/Programs					
Governmental Activities:					
Natural & Economic Environment	$ 4,248,883	$ 16,876	$ 1,130,507	$ -	$ (3,101,500)
Total Governmental Activities	$ 4,248,883	$ 16,876	$ 1,130,507	$ -	$ (3,101,500)

General Revenues	
Tourism Promotion Area special assessments	3,602,592
Investment earnings	2,440
Total General Revenues	3,605,032
Change in Net Position	503,532
Net Position - Beginning	2,391,369
Net Position - Ending	$ 2,894,901

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

Seattle Southside Regional Tourism Authority

Balance Sheet
Governmental Fund
December 31, 2016

Assets	General Fund
Cash & cash equivalents	$ 2,190,611
Receivables (net):	
Other current receivables	4,308
Due from other governments	866,828
Inventory-tickets	4,816
Prepaid items	57,672
Contract receivable-security deposit	10,000
Total Assets	$ 3,134,235
Liabilities	
Accrued wages & benefits	70,067
Accrued expenses	83,857
Building lease payable-current	9,348
Building lease payable-noncurrent	56,251
Total Liabilities	219,523
Fund Balances	
Nonspendable:	
Inventory	4,816
Prepayments	57,672
Non-current receivable	10,000
Assigned:	
2017 excess budget appropriation	1,218,723
Unassigned	1,623,501
Total Fund Balances	$ 2,914,712

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

Seattle Southside Regional Tourism Authority

Reconciliation of Fund Balances of Governmental Funds to the Net Position of Governmental Activities

December 31, 2016

Reconciliation of Fund Balances of Governmental Funds to the Net Position of Governmental Activities:

Governmental funds total fund balance on December 31, 2016 (as shown on the Balance Sheet for governmental funds)		$ 2,914,712
Deferred outflows of resources related to pensions will not be utilized in the current period and, therefore, are not reported in the governmental fund.		255,588
Capital assets used in governmental activities are not financial resources and are not reported in the individual governmental funds.		
These capital assets consist of:		
Intangibles - Trademarks	$ 7,665	
Software under development	137,775	
Furniture	56,164	
Equipment	11,853	
Less: accumulated depreciation	(7,147)	206,310
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in an individual governmental fund.		
Compensated absences payable	(35,840)	
Net pension obligations	(437,974)	
Deferred pension inflows	(7,895)	(481,709)
Net position of governmental activities (as shown on the Government-wide Statement of Net Position)		$ 2,894,901

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

Seattle Southside Regional Tourism Authority

Statement of Revenues, Expenditures & Changes in Fund Balance

Governmental Fund

For the Period Ended December 31, 2016

Revenues	General Fund
Intergovernmental	$ 1,130,507
Special assessments	3,602,592
Tourism promotion services	4,425
Interest earnings	2,440
Miscellaneous	12,450
Total Revenues	4,752,414
Expenditures	
Natural & Economic Environment	4,032,160
Capital Outlay - Natural & Economic Environment	175,696
Total Expenditures	4,207,856
Excess (deficiency) of revenues over (under) expenditures	544,558
Other Financing Sources (Uses)	-
Total Other Financing Sources (Uses)	-
Net Change in Fund Balance	544,558
Fund Balance-Beginning	2,370,154
Fund Balance-Ending	$ 2,914,712

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

Seattle Southside Regional Tourism Authority

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities

For the Year Ended December 31, 2016

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

Net change in fund balance for all governmental funds combined		$ 544,558
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets are allocated over their useful lives and reported as depreciation expense. This is the difference for the current period:		
Capital outlays	175,696	
Depreciation expense	(6,831)	168,865
Governmental funds report pension expenditures when due and payable from current financial resources. However, in the Statement of Activities, pension expense is measured by the change in net pension assets, net pension liabilities, and related deferred outflows and inflows. This is the net difference in pension expense.		(190,281)
Some expenses reported on the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds. These expenses consist of:		
Net increase in compensated absences		(19,610)
Change in net position of governmental activities (as shown on the Government-wide Statement of Net Activities)		$ 503,532

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

Notes to Financial Statements
December 31, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Seattle Southside Regional Tourism Authority (RTA) 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:

A. Organization

In May 2014, under the State's Tourism Promotion Area (TPA) Act (RCW 35.101) and the Interlocal Cooperation Act (RCW 39.34), the cities of SeaTac, Tukwila and Des Moines entered into an Interlocal Agreement for the joint establishment of a Tourism Promotion Area (TPA). The Interlocal Agreement established the purpose of the TPA to include receiving special assessment and lodging tax revenues, managing and operating the TPA, serving as a destination marketing organization and providing tourism promotion services. On October 14, 2014, Seattle Southside Regional Tourism Authority ("RTA") was chartered as a public development authority by City of SeaTac Ordinance No. 14-1014. This Ordinance authorized the creation of the RTA as a public corporation and a separate legal entity pursuant to RCW 35.21.730(5).

On January 13, 2015, the City Council of the City of SeaTac passed Resolution No. 15-001 appointing the initial Board of Directors for the RTA, formally commencing the existence of the RTA. The first Board of Director's meeting was held January 16, 2015 with the initial Board Officers being selected by the RTA Board Members.

B. Reporting Entity

For financial reporting purposes, in conformance with GASB Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 34, *Basic Financial Statements and Management's Discussion & Analysis for State and Local Governments*, and GASB Statement No. 61, *The Financial Reporting Entity: Omnibus an Amendment of GASB Statement No. 14* and *34*, the RTA is considered a discretely presented component unit of the City of SeaTac. Although the RTA is an independent legal entity responsible for its own debts, obligations and liabilities, the City of SeaTac, as the "Legislative Authority" for the RTA, has the responsibility for approving the RTA's Annual Budget, and confirming the appointments of RTA Board Members as recommended for appointment by current RTA Board Members.

C. Basis of Presentation - Government-wide and Fund Financial Statements

The government-wide financial statements (i.e. the Statement of Net Position and the Statement of Activities) report information on the nonfiduciary activities of the primary government. Any fiduciary activities would be reported only in the fund financial statements. Governmental activities, which normally are supported by taxes, intergovernmental revenues, nonexchange transactions, are reported separately from business-type activities, which rely to a significant extent on fees and charges to external customers for support. The RTA has no fiduciary activities and no business-type activities.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or a segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a function or a segment. The RTA has only one program, Tourism, which is has been classified as "Natural and Economic Environment" for reporting purposes. Program revenues include the following: 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational and capital requirements of a particular function or segment. Taxes, and in the case of the RTA, special assessments, interest, and other items not properly included among program revenues are reported instead as general revenues.

Separate fund financial statements have been provided for the RTA's only governmental fund, a General Fund. The General Fund is an operating fund that accounts for all financial resources of the general government, except those required or elected to be accounted for in another fund. The RTA's fund financial statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balance.

The principal revenues of the RTA are Tourism Promotion Area special assessments imposed on lodging units of $2.00 per occupied room per day for Lodging Businesses that are either hotel, motel, or bed and breakfast facilities, with 90 or more lodging units located in the cities of SeaTac, Des Moines and Tukwila. In addition, the RTA continues to negotiate Interlocal Agreements with the three cities to transfer city lodging taxes to the RTA to use for tourism promotion services pursuant to Chapter 67.28 RCW. The RTA also receives commissions on the sales of tickets for tourism related attractions and these are recognized as program revenue. Interest earnings and non-capital asset transfers (intergovernmental revenue) have also been collected. Expenditures for the RTA include salaries and benefits, supplies, services and capital outlay for furniture.

D. <u>Measurement Focus, Basis of Accounting</u>

1. <u>Government-wide</u>

Government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

2. <u>Governmental Funds</u>

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 the liabilities of the current period. For this purpose, the RTA considers revenues to be available if they are collected within 90 days of the end of the current fiscal period. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, claims, judgments, and other post-employment benefits, are recorded only when a payment is due. General capital acquisitions are reported as expenditures in governmental funds. Acquisitions under capital leases are reported as other financing sources.

TPA special assessments are susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the RTA.

E. Revenue Recognition

TPA assessments are earned two months prior to being remitted by the State's Department of Revenue through the State Treasurer's Office. As such, there is a receivable and related accrued revenue in the amount of $517,343 from TPA assessments earned during November and December 2016 that were not collected until January and February 2017.

F. Budgetary Information

1. Scope of the Budget

The RTA's 2016 Annual Budget was prepared on the modified accrual basis of accounting, except for the TPA special assessments which were estimated on a cash basis, and included amounts for current year operating revenues and expenditures. The Board of Directors approved the RTA's second annual operating budget with a $5.2 million expenditure appropriation and $4.7 million in estimated revenues through the passage of Resolution #2015-021 on October 8, 2015. In addition to RTA Board approval, the City of SeaTac, the Legislative Authority, approved the RTA's Annual Budget for the use of the TPA special assessments. This approval was done November 24, 2015 by motion via Agenda Bill #4157.

2. Amending the Budget

The President/CEO is authorized to transfer budgeted amounts between departments and object classes within departments; however, any revisions that alter the total expenditure appropriation of the General Fund or that effect the number of authorized employee positions or employment conditions must be approved by the Board.

RSI includes a budget schedule that contains the RTA's original and final budget information. The original budget is the first complete appropriated budget. The final budget is the original budget adjusted by any legally authorized Board approved changes during the year. The RTA's original budget was not amended by the Board in 2016.

3. Excess of Expenditures over Appropriations

In 2016, expenditures did not exceed appropriations in the RTA's General Fund.

F. Assets, Liabilities, Fund Balance, Net Position

1. Cash, Cash Equivalents & Investments

In 2016, the RTA's cash and cash equivalents consisted only of checking and savings accounts with U.S. Bank. These demand deposits were 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). While the RTA does not have a formal policy regarding custodial credit risk separate from State law, the RTA does not assume any custodial credit risk because all of its cash balances are held in the U.S. Bank accounts, which are not an investment evidenced by securities.

Although the RTA held no investments in 2016, State law allows agencies to invest its surplus funds in U.S. Treasuries and Agency securities, certificates of deposits, commercial paper, bankers' acceptances, and repurchase agreements secured by eligible securities.

The amounts reported as cash and cash equivalents also include a collected balance maintained with U.S. Bank in lieu of payments for services rendered. The average collected balance maintained during 2016 was approximately $2,079,280.

As of December 31, 2016, the RTA's total cash and cash equivalents consisted of the following:

U.S. Bank, Checking account	$ 316,227
U.S. Bank, Savings account	1,873,883
Petty Cash	500
Total Cash & Cash Equivalents	$2,190,610

2. Receivables & Amounts Due from Other Governments

The RTA's receivables consist of commissions receivable, revenues due from other governments and a long- term security deposit receivable. The security deposit being held is from the RTA's operating lease for office space while the commissions are from contractual agreements like ticket sales. The due from other governments receivable is for two months of special assessments earned in 2016 which were due to the RTA from the State and lodging taxes from the three cities included in the TPA.

3. Inventories

The RTA holds in inventory a small quantity of tickets for sale to visitor attractions. The tickets are sold as a convenience to area visitors at cost or for a small commission. The first-in first-out (FIFO) method is used to value the cost of RTA ticket inventory. All other RTA inventory consists of expendable supplies held for consumption and are recorded as an expenditure when purchased. The amount of these supplies is considered immaterial.

4. Capital Assets

Capital assets are reported in the governmental activities column in the government-wide Statement of Net Position. Non-depreciable capital assets include trademarks and software under development. Depreciable assets include furniture and equipment. Capital assets are generally defined as an asset with an initial cost of more than $5,000 and an estimated useful life greater than four years. Such assets are recorded at historical cost when purchased. Donated capital assets are recorded at the acquisition value at the date of donation. Costs for additions or improvements to capital assets are capitalized when they increase the effectiveness or efficiency of the asset. Costs for normal maintenance and repairs are not capitalized.

The following table summarizes asset capitalization thresholds and service life:

Capital Asset Classes	Capitalization Threshold	Estimated Service Life
Software Under Development	$5,000	Not Depreciated
Intangible Assets – Trademarks	Capitalize All	Not Depreciated
Equipment	$5,000	4 Years
Furniture	$5,000	10 Years

The RTA's assets are depreciated using straight-line depreciation with no salvage value. Capital asset activity for the year ended December 31, 2016 was as follows:

Type of Assets	Beg Balance 01/01/16	Additions	Deletions	Ending Balance 12/31/16
Capital assets not being depreciated:				
Software under development	$0	$137,775	$0	$137,775
Intangible Assets-Trademarks	0	7,665	0	7,665
Total capital assets not being dep.	0	145,440	0	145,440
Capital assets being depreciated:				
Equipment	0	11,853	0	11,853
Furniture	37,762	18,403	0	56,165
Total capital assets being dep.	37,762	30,256	0	68,018
Total governmental activities capital assets before depreciation	$37,762	$175,696	$0	$213,458
Less accumulated depreciation for:				
Equipment	0	(2,371)	0	(2,371)
Furniture	(315)	(4,460)	0	(4,775)
Total accumulated depreciation	(315)	(6,831)	0	(7,146)
Total governmental activities capital assets (net)	$37,447	$168,865	$0	$206,312

Depreciation expense was charged to the following activity of the RTA as follows:

Governmental Activities:	
Natural & Economic Environment	$6,831
Total Depreciation Expense-Governmental Activities	$6,831

5. <u>Compensated Absences</u>

Compensated absences are absences for which employees will be paid, such as vacation. RTA employees accrue 12 days (96 hours) of sick leave per year with a maximum accrual of 480 hours. Upon, separation, sick leave cannot be cashed out. For vacation, employees accrue in the range of 12 days (96 hours) to 24 days (192 hours) per year, depending on the employee's length of service. The maximum vacation accrual is equal to two times an employee's annual yearly vacation accrual amount. An employee separating from the RTA will be paid for all unused vacation provided a two-week notice period has been given to the RTA. The RTA has a five (5) year employment agreement with the President/CEO that provides distinct vacation and sick leave benefits through December 31, 2020. At the end of 2016, total compensated absences liability was $35,840 and included accumulated unused vacation and sick leave. It is estimated that $21,788 of this liability will be due in one year.

6. Pensions (*See Note 3 - Pension Plans*)

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

7. Other Accrued Liabilities

These accounts consist of accrued wages, employee benefits and other expenses.

8. Long-term Debt (*See Note 6 - Long-term Debt & Changes in Long-term Liabilities*)

9. Fund Balance Classifications

Fund balance in governmental funds represents the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources. GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, states that governmental funds should report fund balance in classifications that comprise a hierarchy based primarily on the extent to which the RTA is bound to honor constraints on the specific purposes for which amounts in these funds can be spent. Governments, such as the RTA, that do not have policies or procedures comparable to the GASB Statement No. 54 policies that underlie the classifications, would not report such amounts in all possible fund balance classifications. Since the RTA does not have fund balance classification policies or procedures, no amounts were reported as committed. Therefore, the flow assumption or order of spending within unrestricted fund balance would be assigned then unassigned since the RTA does not have anything reported as committed.

The following are the fund balance classifications as defined by GASB Statement No. 54:

Nonspendable: Amounts that cannot be spent because they are not in spendable form or are legally or contractually required to be maintained intact. Not in spendable form includes items that are not expected to be converted to cash like inventories and prepaid amounts. It may also include long-term amounts of loans and notes receivable.

Restricted: Fund balance should be reported as restricted when 1) constraints placed on the use of the resources are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or 2) imposed by law through constitutional provisions or enabling legislation. Although the RTA's primary revenue sources are legally restricted for tourism-related purposes, the RTA was established solely to promote tourism; therefore, the restrictions on these revenues establishes "no purpose restrictions narrower than the general restriction of the activity" as prescribed by GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments* and the residual fund balance in the General Fund was classified as unassigned.

Committed: Amounts that can only be used for specific purposes pursuant to constraints imposed by formal action (passage of a resolution) to establish (and to modify or to rescind) the commitments of the RTA's highest level of decision-making authority which is the RTA Board of Directors. At this time, the RTA has no written policy or procedure on committing fund balance.

Assigned: Amounts that are restrained by the RTA's intent to be used for a specific purpose, but are neither restricted nor committed, should be reported as assigned fund balance. Intent should be expressed by the governing body (the RTA Board), or a body or official to which the governing body has delegated the authority to assign amounts to, be used for specific purposes. Assigned fund balance includes amounts in the General Fund that are intended to be used for a specific purpose. At this time, the RTA has no written policy or procedure on assigning fund balance and the authority to make assignments has not been delegated to anyone.

Unassigned: Residual classification to the General Fund. This classification represents fund balance that has not been restricted, committed, or assigned to specific purposes within the General Fund.

10. Minimum Reserves

On September 15, 2016, the RTA Board passed Resolution No. 2016-036 establishing a budgetary minimum net position reserve effective for the RTA's 2017 annual budget. The resolution sets aside a two-month operating expense (excludes capital expenses) contingency reserve to be maintained to mitigate potential future risks and to provide operational stability.

G. Other

1. Stabilization Arrangements

On September 15, 2016, the RTA Board passed Resolution No. 2016-036 establishing a budgetary Economic Downturn/Recession Reserve (effective for the 2017 Budget) of 11% of TPA Special Assessments to be used as necessary during an economic downturn or recession. When spent, this reserve will be replenished within one to three years following the end of the economic downturn or recession. This reserve is appropriated annually by the RTA Board but remains unspent until an economic downturn or recession occurs.

NOTE 2 – SIGNIFICANT COMMITMENTS

In December 2015, the RTA signed a three (3) year contract for professional services that includes strategic planning, research and analysis, marketing action plan, sales strategy and plan, campaign concept development and implementation, social media strategy, public relations, and media services. A new statement of work is signed each year with the contractor and varies based on the RTA's needs, marketing metrics, and data. In 2016, service fees and media/production costs (excluding web development) were at a combined total of $1.5 million. Total services fees and media/production costs for 2017 are estimated at a combined total of $2 million (excluding web development).

NOTE 3 – PENSION PLANS

A. Public Employees Retirement System (PERS) Plans 1, 2 and 3

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

Aggregate Pension Amounts – All Plans	
Pension liabilities	$437,974
Pension assets	$0
Deferred outflows of resources	$255,587
Deferred inflows of resources	($7,895)
Pension expense/expenditures	$294,649

State Sponsored Pension Plans

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

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

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

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

Public Employees' Retirement System (PERS)

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

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

Contributions PERS Plan 1

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

PERS Plan 1		
Actual Contribution Rates:	Employer	Employee*
PERS Plan 1	6.23%	6.00%
PERS Plan 1 UAAL	4.77%	0.00%
Administrative Fee	0.18%	0.00%
Total	11.18%	6.00%

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

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

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

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

Contributions PERS Plan 2/3

The PERS Plan 2/3 employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the State Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan

3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2016 were as follows:

PERS Plan 2/3		
Actual Contribution Rates:	Employer 2/3	Employee 2
PERS Plan 2/3	6.23%	6.12%
PERS Plan 1 UAAL	4.77%	0.00%
Administrative Fee	0.18%	0.00%
Employee PERS Plan 3	N/A	Varies
Total	11.18%	6.12%

The RTA's actual PERS plan contributions were $106,077 to PERS Plan 2/3 for the year ended December 31, 2016.

Actuarial Assumptions

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

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

- Inflation: 3.0% total economic inflation; 3.75% salary inflation
- Salary increases: In addition to the base 3.75% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- Investment rate of return: 7.5%

Mortality rates were based on the RP-2000 report's Combined Healthy Table and Combined Disabled Table, published by the Society of Actuaries. The OSA applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year throughout his or her lifetime.

There were minor changes in methods and assumptions since the last valuation.

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

Discount Rate

The discount rate used to measure the total pension liability for all DRS plans was 7.5 percent.

To determine that rate, an asset sufficiency test included an assumed 7.7 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. (All plans use 7.7 percent except LEOFF 2, which has assumed 7.5 percent). Consistent with the long-term expected rate of return, a 7.5 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue being made at contractually required rates (including PERS 2/3, PSERS 2, SERS 2/3, and TRS 2/3 employers, whose rates include a component for the PERS 1, and TRS 1 plan liabilities). Based on these assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.5 percent was used to determine the total liability.

Long-Term Expected Rate of Return

The long-term expected rate of return on the DRS pension plan investments of 7.5 percent was determined using a building-block-method. The Washington State Investment Board (WSIB) used a best estimate of expected future rates of return (expected returns, net of pension plan investment expense, including inflation) to develop each major asset class. Those expected returns make up one component of WSIB's capital market assumptions. The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns at various future times. The long-term expected rate of return of 7.5 percent approximately equals the median of the simulated investment returns over a 50-year time horizon.

Estimated Rates of Return by Asset Class

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2016, are summarized in the table below. The inflation component used to create the table is 2.2 percent and represents the WSIB's most recent long-term estimate of broad economic inflation.

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

Sensitivity of the Net Pension Liability/(Asset)

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

Plan	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
PERS 1	$239,751	$198,815	$163,587
PERS 2/3	$440,334	$239,159	($124,496)

Pension Plan Fiduciary Net Position

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

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

At June 30, 2016, the RTA reported a total pension liability of $363,369 for its proportionate share of the net pension liabilities as follows:

Plan	Asset or (Liability)
PERS 1	($193,649)
PERS 2/3	($169,720)
Total	($363,369)

On June 30, 2016, the RTA's proportionate share of the collective net pension liabilities was as follows:

Plan	Proportionate Share 6/30/15	Proportionate Share 6/30/16	Change in Proportion
PERS 1	0%	.0037202%	.0037202%
PERS 2/3	0%	.0047500%	.0047500%

Employer contribution transmittals received and processed by the DRS for the fiscal year ended June 30 are used as the basis for determining each employer's proportionate share of the collective pension amounts reported by the DRS in the Schedules of Employer and Nonemployer Allocations for all plans except LEOFF 1.

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

Pension Expense

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

Plan	Pension Expense
PERS 1	$214,683
PERS 2/3	$79,966
Total	$294,649

Deferred Outflows of Resources and Deferred Inflows of Resources

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

PERS 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$0	$0
Net difference between projected and actual investment earnings on pension plan investments	$5,006	$0
Changes of assumptions	$0	$0
Changes in proportion and differences between contributions and proportionate share of contributions	$0	$0
Contributions subsequent to the measurement date	$24,385	$0
TOTAL	$29,391	$0

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$12,735	($7,895)
Net difference between projected and actual investment earnings on pension plan investments	$29,266	$0
Changes of assumptions	$2,472	$0
Changes in proportion and differences between contributions and proportionate share of contributions	$149,876	$0
Contributions subsequent to the measurement date	$31,847	$0
TOTAL	$226,196	($7,895)

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

Year ended December 31st:	PERS 1	PERS 2/3
2017	($1,233)	$47,002
2018	($1,233)	$47,002
2019	$4,597	$69,214
2020	$2,874	$23,238
2021	$0	$0
Total	$5,006	$186,456

B. Deferred Compensation Plan (457(b) Plan)

In lieu of Social Security, the RTA Board of Directors passed Resolution #2015-023 authorizing employee participation in the Washington State Department of Retirement Systems Deferred Compensation Program (DCP) which is an Internal Revenue Code (IRC) 457(b) defined contribution plan. Employees who voluntarily elect to participate in the DCP, can defer up to $18,000 (maximum in 2016.) Employees who are aged 50 or older have the option of contributing up to an additional $6,000 in catch-up contributions. In addition, special 457(b) contributions (twice the annual limit in the amount of $36,000) may be allowed for participants for three years prior to the normal retirement age. The RTA provides a 5% maximum employer DCP match and there is no vesting period. All funds deferred by employees are held in trust by the Washington State Investment Board for the exclusive benefit of program participants and eligible beneficiaries. As such, amounts deferred and placed in trust have not been reflected as assets or liabilities of the RTA in the accompanying financial statements. In 2016, voluntary employee contributions were made in the amount of $63,677. The RTA provided a 5% match in the amount $41,000.

NOTE 4 - RISK MANAGEMENT

A. Liability Insurance

The RTA is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The RTA is a member of the Washington Cities Insurance Authority (WCIA) which provides liability coverage for these types of risks.

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

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

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

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

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

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

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

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

There have been no settlements regarding purchased insurance policies. As such, settlements of claims did not exceed insurance coverage for the period ended December 31, 2016. In addition, there has been no reduction in insurance coverage from the previous year.

B. Payroll Benefit Insurance

The RTA's industrial insurance is provided by Washington State and is administered by the Department of Labor and Industries. Coverage is purchased by means of standard rates per working hour.

The RTA's unemployment insurance is administered in Washington State by the Employment Security Department in accordance with the provisions of the Employment Security Act. The RTA's employer status for unemployment insurance is as a "reimbursable" employer. The RTA is billed by Employment Security for any unemployment benefits paid to former employees every three months. As a political subdivision, the RTA is exempt from federal unemployment taxes.

Association of Washington Cities Employer Benefit Trust ("Trust")

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

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

As of December 31, 2016, 258 cities/towns/non-city entities participate in the AWC Trust HCP.

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

Participating employers pay monthly premiums to the AWC Trust HCP. The AWC Trust HCP is responsible for payment of all covered claims. In 2016, the AWC Trust HCP purchased stop loss insurance for Regence/Asuris plans at an Individual Stop Loss (ISL) of $1.5 million through Life Map, and Group Health ISL at $750,000 through Sun Life. The aggregate policy is for 200% of expected medical claims.

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

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

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

NOTE 5 – SHORT TERM DEBT

As of December 31, 2016, the RTA had no short-term debt outstanding. Additionally, there was no short term debt activity during the year.

NOTE 6 – LONG-TERM DEBT & CHANGES IN LONG-TERM LIABILITIES

Although RCW 35.21.745 provides that public corporations may be empowered to issue bonds, per City of SeaTac Ordinance No. 14-1014, creation of a public corporation, the RTA has no power to issue negotiable bonds or notes.

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

Type of Debt	Beginning Balance 1/1/16	Additions	Reductions	Ending Balance 12/31/16	Due Within One Year
Pension Obligations (Net)	$0	$437,974	$0	$437,974	N/A
Building Lease	$35,773	29,826	0	$65,599	$9,348
Compensated Absences	$16,230	75,178	55,568	$35,840	$21,788
Total Long-term Liabilities	$52,003	$542,978	$55,568	$539,413	$31,136

The pension obligation is due to the implementation of GASB Statement No. 68*, Accounting and Financial Reporting for Pensions*, in 2016.

The building lease liability is related to the ten months of the rent holiday. Specifically, this liability is for the recognition of building lease expenditures/expenses measured on the straight-line basis as described in *Note 7: Leases*.

For governmental activities, compensated absences liabilities will be liquidated by the RTA's General Fund.

NOTE 7 – LEASES

The RTA signed a sixty-six (66) month noncancelable lease agreement for office space which includes space for a visitor center on the first floor of the building. This lease agreement was effective August 1, 2015 and expires on January 31, 2023. Under the building lease agreement, the first six months of the lease were free to the RTA providing for a "rent holiday" under GASB Statement No. 13, *Accounting for Operating Leases with Scheduled Rent Increases*. An additional three months of rent was free due to a delay in the completion of the tenant improvements. For 2016, the rent expenses/expenditures for the lease agreement were measured on the straight-line basis and totaled $90,221 (excluding a minor adjustment for 2015) as required by GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.*

The future minimum lease payments for the office space lease are as follows:

2017	$ 90,221
2018	90,221
2019	90,221
2020	90,221
2021	7,517
Total	$368,401

NOTE 8 – CONTINGENCIES AND LITIGATIONS

The RTA is not aware of any material liabilities or unresolved situations requiring the recording of an estimated liability accrual in the financial statements. In the opinion of management, the RTA's liability insurance is adequate to cover any claims that may arise.

NOTE 9 – RESTRICTED COMPONENT OF NET POSITION

The Government-wide State of Net Position reports no restricted net assets and no restrictions from enabling legislation.

NOTE 10 – OTHER DISCLOSURES

A. Accounting and Reporting Changes

In 2016, the RTA implemented the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, which was established to improve accounting and financial reporting by state and local governments for pensions. The RTA did not implement GASB Statement No. 68 in 2015 because the RTA did not join the Public Employees' Retirement System (PERS) until September 2015, after the Washington State Department of Retirement System's (DRS) June 30, 2015 pension measurement date.

Seattle Southside Regional Tourism Authority

Required Supplementary Information (RSI)
General Fund
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
For the Period Ended December 31, 2016

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget-Positive (Negative)
Revenues				
Intergovernmental	$ 1,072,500	$ 1,072,500	$ 1,130,507	$ 58,007
Special assessments	3,574,356	3,574,356	3,602,592	28,236
Tourism promotion services	-	-	4,425	4,425
Interest earnings	-	-	2,440	2,440
Miscellaneous	20,000	20,000	12,450	(7,550)
Total Revenues	4,666,856	4,666,856	4,752,414	85,558
Expenditures				
Natural & Economic Environment	5,152,124	5,152,124	4,032,160	1,119,964
Capital Outlay- Natural & Economic Env	50,000	50,000	175,696	(125,696)
Total Expenditures	5,202,124	5,202,124	4,207,856	994,268
Excess (deficiency) of revenues over (under) expenditures	(535,268)	(535,268)	544,558	1,079,826
Other Financing Sources (Uses)	-	-	-	-
Total Other Financing Sources (Uses)	-	-	-	-
Net Change in Fund Balance	(535,268)	(535,268)	544,558	1,079,826
Fund Balance-Beginning	1,600,000	1,600,000	2,370,154	770,154
Fund Balance-Ending	$ 1,064,732	$ 1,064,732	$ 2,914,712	$ 1,849,980

Notes:
Special assessments were budgeted on a cash basis instead of a modified-accrual basis.

Seattle Southside Regional Tourism Authority

Required Supplementary Information (RSI)

Schedule of the RTA's Proportionate Share of the Net Pension Liability - WA DRS PERS 1
As of June 30th
Last 10 Fiscal Years[1]

	2016
RTA's proportion of the net pension liability (asset)	0.003702%
RTA's proportionate share of the net pension liability (asset)	$ 198,815
RTA's covered employee payroll	$ 440,143
RTA's proportionate share of the net pension liability (asset) as a percentage of its covered employee payroll	45.17%
Plan fiduciary net position as a percentage of the total pension liability[2]	57.03%

Schedule of the RTA's Proportionate Share of the Net Pension Liability - WA DRS PERS 2 & 3
As of June 30th
Last 10 Fiscal Years[1]

	2016
RTA's proportion of the net pension liability (asset)	0.004750%
RTA's proportionate share of the net pension liability (asset)	$ 239,159
RTA's covered employee payroll	$ 440,143
RTA's proportionate share of the net pension liability (asset) as a percentage of its covered employee payroll	54.34%
Plan fiduciary net position as a percentage of the total pension liability[2]	85.82%

Notes:

1) This schedule will be completed prospectively until it contains ten years of data.

2) Percentage information provided by DRS Participating Employer Financial Information (PEFI) Report - Note 2.

Seattle Southside Regional Tourism Authority

Required Supplementary Information (RSI)

Schedule of Employer Contributions - WA DRS PERS 1
For the year ended December 31, 2016
Last 10 Fiscal Years[1]

	2016
Statutorily or contractually required contributions	$ 45,259
Contributions in relation to the statutorily or contractually required contributions[2]	$ (45,259)
Contribution deficiency (excess)	$ -
RTA's covered-employee payroll	$ 948,818
Contributions as a percentage of covered-employee payroll	4.77%

Schedule of Employer Contributions - WA DRS PERS 2/3
For the year ended December 31, 2016
Last 10 Fiscal Years[1]

	2016
Statutorily or contractually required contributions	$ 59,109
Contributions in relation to the statutorilly or contractually required contributions[2]	$ (59,109)
Contribution deficiency (excess)	$ -
RTA's covered-employee payroll	$ 948,818
Contributions as a percentage of covered-employee payroll	6.23%

Notes to the Schedules of Employer Contributions:

1) These schedules will be completed prospectively until it contains ten years of data.

2) Contributions are actual employer contributions; RTA PERS 1 contributions only include the portions of the PERS 2/3 contributions that cover PERS 1 UAAL.

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

The results of our work are widely distributed through a variety of reports, which are available on our website and through our free, electronic subscription service.

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

Contact information for the State Auditor's Office	
Public Records requests	PublicRecords@sao.wa.gov
Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	www.sao.wa.gov