



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

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

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

**Published September 27, 2018**

**Report No. 1022309**





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

September 27, 2018

Council  
City of Shoreline  
Shoreline, Washington

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

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

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

Sincerely,

Pat McCarthy  
State Auditor  
Olympia, WA

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# SCHEDULE OF FINDINGS AND QUESTIONED COSTS

## City of Shoreline January 1, 2017 through December 31, 2017

### SECTION I – SUMMARY OF AUDITOR’S RESULTS

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

#### Financial Statements

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

##### Internal Control over Financial Reporting:

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

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

#### Federal Awards

##### Internal Control over Major Programs:

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

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

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

### **Identification of Major Federal Programs:**

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

<u>CFDA No.</u>	<u>Program or Cluster Title</u>
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 the Uniform Guidance, was \$750,000.

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

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

None reported.

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

None reported.

**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 Shoreline  
January 1, 2017 through December 31, 2017**

Council  
City of Shoreline  
Shoreline, 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 Shoreline, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated September 27, 2018.

As discussed in Note 17 of the notes to the financial statements, in 2017, the City entered into an agreement with Ronald Wastewater District to assume the day-to-day operations of the District. Through this arrangement, the District employees became City employees and the District transferred its personal assets to the City. These activities are reported in the Wastewater Utility Fund, a major fund.

**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.

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Pat McCarthy

State Auditor

Olympia, WA

September 27, 2018

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

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

Council  
City of Shoreline  
Shoreline, Washington

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

We have audited the compliance of the City of Shoreline, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended December 31, 2017. The City's major federal programs are identified in the accompanying Schedule of Findings and Questioned Costs.

**Management's Responsibility**

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

**Auditor's Responsibility**

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

referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

### **Opinion on Each Major Federal Program**

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2017.

## **REPORT ON INTERNAL CONTROL OVER COMPLIANCE**

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

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

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

### **Purpose of this Report**

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

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

Pat McCarthy

State Auditor

Olympia, WA

September 27, 2018

# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

## City of Shoreline January 1, 2017 through December 31, 2017

Council  
City of Shoreline  
Shoreline, 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 Shoreline, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed on page 15.

#### 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 Shoreline, as of December 31, 2017, and the respective changes in financial position and, where applicable, cash flows thereof, and the budgetary comparison for the General Fund, 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 17 of the notes to the financial statements, in 2017, the City entered into an agreement with Ronald Wastewater District to assume the day-to-day operations of the District. Through this arrangement, the District employees became City employees and the District transferred its personal assets to the City. These activities are reported in the Wastewater Utility Fund, a major fund. 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 15 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Supplementary and Other Information*

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 2018 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Pat McCarthy

State Auditor

Olympia, WA

September 27, 2018

## FINANCIAL SECTION

### City of Shoreline January 1, 2017 through December 31, 2017

#### REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2017

#### BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2017

Statement of Activities – 2017

Balance Sheet – Governmental Funds – 2017

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

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

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

Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual  
– General Fund Reconciliation – 2017

Statement of Net Position – Proprietary Funds – 2017

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

Statement of Cash Flows – Proprietary Funds – 2017

Statement of Net Position – Fiduciary Funds – 2017

Notes to Financial Statements – 2017

#### REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Proportionate Share of the Net Pension Liability and Schedule of Employer  
Contributions – PERS 1 – 2017

Schedule of Proportionate Share of the Net Pension Liability and Schedule of Employer  
Contributions – PERS 2/3 – 2017

## **SUPPLEMENTARY AND OTHER INFORMATION**

Schedule of Expenditures of Federal Awards – 2017

Notes to the Schedule of Expenditures of Federal Awards – 2017

## Management Discussion and Analysis

As management of the City of Shoreline, we offer readers of the City of Shoreline's financial statements this narrative overview and analysis of the financial activities of the City of Shoreline for the fiscal year ended December 31, 2017.

### Financial Highlights

The Assets of the City Shoreline exceeded its Liabilities at the end of the most recent fiscal year by \$356,173,047. Of this amount, \$24,327,034 may be used to meet the City's ongoing obligations to citizens and creditors.

- The City's total net position decreased by \$100,010 from 2016. Expenses from governmental activities exceeded governmental revenues by \$1,038,823 and business-type activity expenses exceeded revenues by \$297,658 in 2017 before transfers and special items.
- As of the close of 2017, the City of Shoreline's governmental activities reported ending net position balances of \$339,971,218 an increase of \$676,955 in comparison with the prior year. Approximately 6.7%, or \$22.89 million, constitutes unrestricted net position, which is available for spending at the government's discretion for general operations.
- At the end of the current fiscal year, assigned and unassigned fund balance of the general fund was \$9,786,347 or 26%, of the total general fund expenditures.
- The City's total outstanding debt decreased \$2,716,103 during 2017. This change was the result of decrease by principal payment of \$2,389,628 on general obligation debt and the principal payment of \$326,475 on the Public Works Trust Fund Loan.

As of December 31, 2017, the City had total debt outstanding of \$30,596,270. This total amount represents both General Obligation Debt and outstanding Public Works Trust Fund loans. The City issued general obligation bonds in 2006 to be used for open space acquisition and park improvements. These bonds were refunded in 2016 and will be repaid over five years and have fixed interest rates of between 1.02% and 1.72%. They will be repaid by a voter approved property tax levy. The City issued general obligation bonds in 2009 to be used to pay the purchase of City Hall. The 2009 Series A LTGO bonds were paid off in 2017. The 2009 Series B LTGO bonds (Taxable Build America Bonds, Direct-Pay), will be repaid over 30 years and have variable fixed rates of between 4.69% and 6.4%. They will be repaid by real estate excise taxes and General revenues. The City issued 2013 LTGO bonds to finance the purchase of North Maintenance Facility and will repay these bonds over 20 years at a fixed interest rate of 3.75%. They will be repaid by general property taxes. The City issued Surface Water Utility Revenue bond in 2016 for various Surface Water Utility projects, the bonds will be repaid over 15 years and have fixed interest rate of 2.23%. The 2001 Public Works Trust Fund loans were used to complete the Ronald Bog and 3<sup>rd</sup> Avenue NW drainage improvement projects. These loans will be paid back over a 20 year period and have a fixed interest rate of 0.5%. The repayment will come from surface water utility fees.

### Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Shoreline's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund statements and 3) notes to the financial statements. This report also includes supplementary information intended to furnish additional detail to support the basic financial statements themselves.

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

The statement of net position presents information on all of the City's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported 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 Shoreline 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 for the City include general government, public safety, physical environment (e.g., construction inspection and capital planning and design), transportation, economic environment (e.g., permitting, planning), and culture & recreation. The business-type activities of the City are the surface water utility and wastewater utility.

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

**Governmental funds.** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in 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 governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City of Shoreline maintains fourteen individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, the general capital fund, and the roads capital fund, all of which are considered to be major funds. Data from the other eleven governmental funds are combined into a single, aggregated presentation.

The City of Shoreline adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget.

**Proprietary funds.** The City of Shoreline maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its surface water utility and wastewater utility. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City of Shoreline's various functions. The City uses internal service funds to account for its fleet of vehicles and equipment. The City also uses an internal service fund to provide for its unemployment compensation obligations. Because the services accounted for within the City's internal service funds predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statement provides information for the surface water utility and wastewater utility. Surface water utility is considered a major fund of the City of Shoreline. Both surface water utility and wastewater utility are presented as major funds. Conversely, the internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements.

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

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

### Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City of Shoreline, assets exceeded liabilities by \$356,173,047 as of December 31, 2017.

By far the largest portion of the City's net position (92%) reflects the investment in capital assets (e.g., infrastructure, land, buildings, machinery, and equipment); less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

City of Shoreline's Net Position  
As of December 31, 2017

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Current and other assets	\$ 41,468,290	\$ 38,971,886	\$ 3,202,900	\$ 3,985,229	\$ 44,671,190	\$ 42,957,114
Capital assets	340,465,976	342,503,530	17,959,656	17,839,329	358,425,632	360,342,859
Total Assets	381,934,265	381,475,416	21,162,557	21,824,558	403,096,822	403,299,974
Deferred Outflow s of Resources	1,727,654	1,962,463	163,562	168,564	1,891,216	2,131,027
	383,661,919	383,437,879	21,326,119	21,993,122	404,988,038	405,431,001
Non-Current liabilities	34,476,477	40,332,559	3,728,786	4,523,666	38,205,264	44,856,225
Other liabilities	7,276,855	3,586,335	1,261,152	474,032	8,538,007	4,060,367
Total liabilities	41,753,333	43,918,894	4,989,938	4,997,698	46,743,270	48,916,592
Deferred Inflow s of Resources	1,937,369	224,722	134,352	16,630	2,071,721	241,352
Net Position:						
Net Investment in Capital Assets	313,036,686	313,107,693	14,767,385	14,902,084	327,804,072	328,009,777
Restricted	4,041,941	4,035,973	-	-	4,041,941	4,035,973
Unrestricted	22,892,590	22,150,596	1,434,444	2,076,710	24,327,034	24,227,307
Total net position	\$ 339,971,218	\$ 339,294,263	\$ 16,201,829	\$ 16,978,794	\$ 356,173,047	\$ 356,273,057

The unrestricted net position of both governmental and business activities, \$24,327,034 may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net position, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

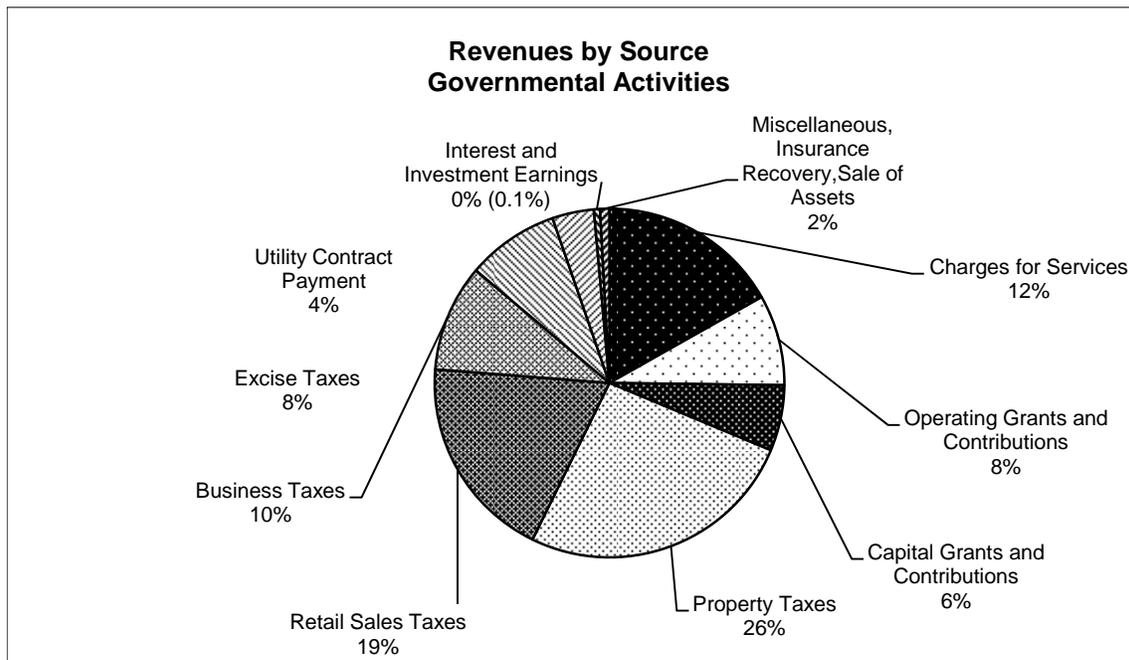
The City's net position decreased by \$100,010 compared to 2016 primarily as a result of increase of deferred inflows of resources. The unrestricted net position increased \$99,727.

**Governmental activities.** Governmental activities increased the City's net position by \$676,955, whereas the Business-type activities decreased \$776,965. Key elements of the decrease are as follows:

	Governmental activities		Business-type activities		Total	
	2017	2016	2017	2016	2017	2016
<b>Revenues:</b>						
<b>Program Revenues:</b>						
Charges for Services	\$ 9,143,363	\$ 8,629,336	\$ 4,604,158	\$ 3,980,509	\$ 13,747,522	\$ 12,609,845
Operating Grants and Contributions	4,488,161	3,525,828	47,053	35,456	4,535,214	3,561,283
Capital Grants and Contributions	3,071,056	2,379,934	34,477	185,783	3,105,533	2,565,718
<b>General revenues:</b>						
Property Taxes	13,876,006	12,481,835	-	-	13,876,006	12,481,835
Retail Taxes	10,153,986	9,685,093	-	-	10,153,986	9,685,093
Business Taxes	5,300,843	5,254,931	-	-	5,300,843	5,254,931
Excise Tax	4,570,695	3,389,274	-	-	4,570,695	3,389,274
Utility Contract Payment	2,055,988	1,925,632	-	-	2,055,988	1,925,632
Interest and Investment Earnings	300,675	216,028	21,831	8,005	322,506	224,033
Miscellaneous	513,294	244,256	46,303	24,470	559,598	268,726
Total Revenue	<u>53,474,067</u>	<u>47,732,147</u>	<u>4,753,822</u>	<u>4,234,222</u>	<u>58,227,889</u>	<u>51,966,370</u>
<b>Expenses:</b>						
General Government	11,256,473	10,122,775	-	-	11,256,473	10,122,775
Public Safety	15,641,312	14,956,956	-	-	15,641,312	14,956,956
Transportation	14,092,948	11,028,649	-	-	14,092,948	11,028,649
Natural & Economic Environment	3,241,635	3,345,107	-	-	3,241,635	3,345,107
Culture and Recreation	8,942,388	7,252,415	-	-	8,942,388	7,252,415
Interest on Long-Term Debt	1,338,135	1,609,241	-	-	1,338,135	1,609,241
Surface Water & Wastewater	-	-	5,051,481	3,826,450	5,051,481	3,826,450
Total Expenses	<u>54,512,890</u>	<u>48,315,143</u>	<u>5,051,481</u>	<u>3,826,450</u>	<u>59,564,370</u>	<u>52,141,593</u>
Increase in net position before transfers and special items	<u>(1,038,823)</u>	<u>(582,996)</u>	<u>(297,658)</u>	<u>407,773</u>	<u>(1,336,481)</u>	<u>(175,223)</u>
Transfers	660,694	642,343	(660,694)	(642,343)	-	-
Insurance Recoveries	20,819	37,411	2,825	3,042	23,644	40,453
Gain from Sale of Capital Assets	77,865	81,271	-	-	77,865	81,271
Special Items	956,400	-	178,562	-	1,134,962	-
Increase in net position	<u>676,955</u>	<u>178,030</u>	<u>(776,965)</u>	<u>(231,528)</u>	<u>(100,010)</u>	<u>(53,499)</u>
Net position - January 1	339,294,263	338,883,448	16,978,794	17,443,108	356,273,057	356,326,556
Prior Period Adjustment	-	232,785	-	(232,785)	-	-
Net position - December 31	<u>\$ 339,971,218</u>	<u>\$339,294,263</u>	<u>\$ 16,201,829</u>	<u>\$ 16,978,794</u>	<u>\$ 356,173,047</u>	<u>\$ 356,273,057</u>

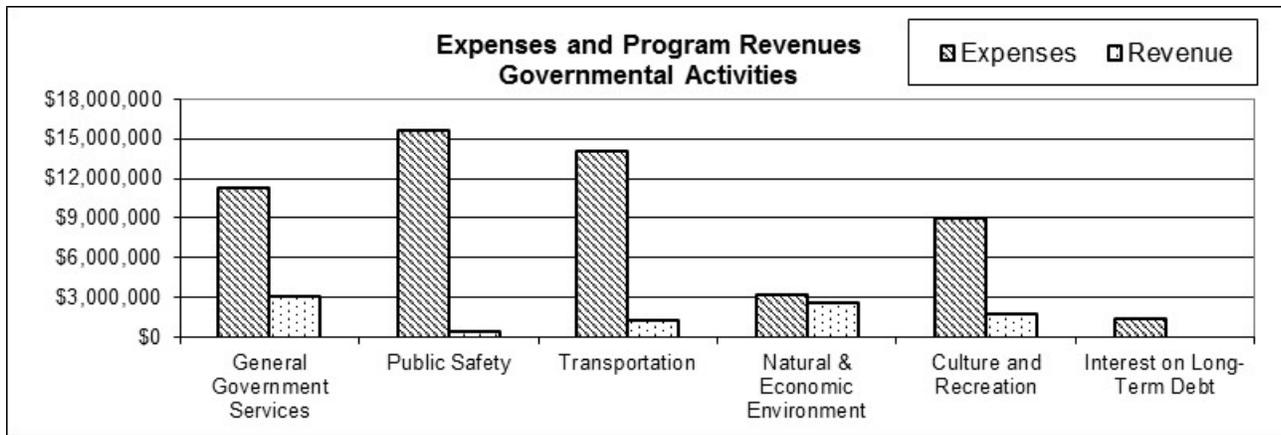
Governmental revenues increased year-over-year by \$5.7 million, or 12%. Under the program revenues, charges for services increased \$514,028, operating grants and contributions increased \$962,333, and capital grants and contributions increased \$691,122.

- Receipts from the Regular Property Tax Levy were \$1.4 million, or 13%, more due to the successful passage of the Levy Lid Lift in November 2016. Receipts from the Excess Property Tax Levy were \$7,839, or 0.5%, less.
- Retail sales tax receipts were \$439,636, or 5%, more as we have seen an improving economy resulting in increased receipts from the Construction Sector of 12%. Local Criminal Justice Sales Tax receipts were \$29,257, or 2%, more as sales tax collected throughout King County was 3.4% more than the year-ago level.
- Revenues reported in the Business Taxes category increased by \$45,912, or 1%. Gambling tax receipts were \$20,569, or 1%, more as gaming activity increased. Utility Contract Payment increased by \$130,356, or 7%, Utility tax receipts were \$27,763, or 1%, less. Collections from natural gas were more by \$145,624, or 20%, and less from telecommunication services by \$108,174, or 9%.
- Revenues reported in the Excise Taxes category increased by \$1,181,421, or 35%. The increase is largely due to higher collections of real estate excise taxes, which were more by \$1,187,736, or 47%, due to increases in property sales values and sales volume.
- Revenues reported in the Miscellaneous category increased by \$269,038, or 110%. A major portion of the increases came from a judgement against Arden View Settlement for \$200,000. Additionally, a settlement with Comcast for \$38,000 also contributed to the increases.



Governmental expenses increased year-over-year by \$6.2 million, or 13%. General Government expenses increased by (\$1,133,698, or 11%). Public Safety increased by (\$684,356, or 5%), as contract costs for jail services increased (+\$474,704, or +35%) and costs for permitting, inspections, and engineering services increased (+\$165,317, or +9%). Transportation expenses increased by \$3.1 million, or 28%, due to construction of major projects. Culture and Recreation increased by \$1.7 million, or 23%, primarily due to construction of major projects.

Special item includes the value of a land parcel from King County in mitigation for the impact to the City residents, businesses and the environment caused by the Brightwater Regional Treatment Plant Project. The parcel's value was assessed at \$956,400 by the King County Assessor's Office.



**Business-type activities.** Business-type activities decreased the City's net position by \$776,965. Key elements of this change are as follows:

- Charges for services increased over 2016 by \$623,649 or 15.7%.
- Capital grants decreased from \$185,783 in 2016 to \$34,477 in 2017.
- Transfers to other funds increased from 2016 by \$18,351, representing an increase in the utility's share of the General Fund overhead.
- Expenses increased by \$1,225,031, or 32% from 2016, due to major projects.
- Special item includes assets transferred from the Ronald Wastewater District. The assets were recorded at the District's net book value of \$178,562.

### Financial analysis of the Government's Funds

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

**Governmental funds.** The focus of the city'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, unreserved 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 December 31, 2017, the City's governmental funds reported combined ending fund balances of \$32,346,318, increasing year-over-year by \$707,096, as follows: 1) the fund balance of the General Fund increased by \$672,793; 2) the fund balance of the General Capital Fund decreased by \$908,177; 3) the fund balance of the Roads Capital Fund increased by \$585,984; and, 4) the fund balance of the non-major funds increased by \$356,496.

Approximately 58% or \$18.87 million constitutes assigned and unassigned fund balances, which are available for spending at the government's discretion for general operations. In addition to the fund balances available for general operations there are nearly \$9.25 million of committed fund balance and \$4.04 million of restricted fund balance.

The City implemented GASB 54 during 2011 and the financial statements reflect that implementation. The General Fund as reported on the *Statement of Revenues, Expenditures and Changes in Fund Balances for Governmental Funds* consists of three funds: General Fund, Revenue Stabilization Fund, and Property Tax Equalization Fund. As of December 31, 2017, unassigned fund balance of the General Fund was \$6,531,215, while total fund balance reached \$19,200,418. As a measure of General Fund liquidity, it may be useful to compare the unassigned fund balance and total fund balance to total fund expenditures. The unassigned fund balance is approximately 34% of the total fund balance and nearly 24% of the General Fund expenditures excluding transfers out.

The fund balance of the City's General Fund increased year-over-year by \$672,793. The City's budget planned for the use of fund balance with a General Fund ending fund balance decrease of \$7,682,962. The planned use of fund balance included one-time allocations for the following purposes:

- \$913,171 for carryovers from 2016;
- \$791,220 for a budgeted operational contingency;
- \$255,000 for a budgeted insurance reserve;
- \$2,033,837 for one-time investments;
- \$1,782,796 for a transfer to the General Capital Fund to support the Police Station @ City Hall project;
- \$500,000 for a transfer to the Roads Capital Fund for the 185<sup>th</sup> Corridor Study project;
- \$350,000 for a transfer to the Roads Capital Fund for the 147<sup>th</sup>/148<sup>th</sup> Non-Motorized Bridge project;
- \$150,000 for a transfer to the Roads Capital Fund for the Westminster and 155<sup>th</sup> Improvements project;
- \$275,000 for a transfer to the Roads Capital Fund for the Trail Along the Rail project
- \$125,000 for a transfer to the Roads Capital Fund for the 160<sup>th</sup> & Greenwood/Innis Arden project; and,
- \$506,938 for a transfer from the Property Tax Equalization Fund to the General Fund.

The variance from budget was \$6.03 million better than anticipated. Key factors in this change of activities are as follows:

Overall General Fund revenues increased year-over-year by \$3.3 million, or 9%. Revenues were less than budget by \$0.85 million. The largest factors comprising the year-over-year increase include:

- Regular Property Tax Levy receipts increased by \$1,394,171, or 11%;
- Retail Sales Tax receipts increased by \$468,893, or 5%;
- Total permit and land use revenues of \$2,548,346 increased by \$541,722, or 27%; and,
- Reimbursement per the Expedited Permitting and Staffing Agreement with Sound Transit is \$327,414 more than 2016.

General Fund expenditures, excluding operating transfers-out, increased year-over-year by \$2,033,553, or 6%. Expenditures were \$6,003,650 less than budget. The most significant areas experiencing budget savings included:

- General Government expenditures were \$2,989,688 million less than budget. A large portion of the savings resulted from the City not using all of the budgeted operating contingency (\$791,220) and insurance reserve (\$255,000). Projects that were not completed in 2017 that will continue into 2018 include: continuous improvement (\$29,623); repair of roof on the Jersey's Restaurant (\$5,377); microfilming of payroll records (\$9,703); Finance and HR System Replacement (\$974,379); completing Computerized Permit and Customer Service System replacement (\$59,275); completing SharePoint Phase II (\$7,094); Wi-Fi Installation (\$3,134); and, installation of projectors in Conference Room 222 (\$11,482).
- Public Safety expenditures were \$1,331,171 less than budget primarily as a result of: lower police services costs due to savings in salaries and benefits costs (\$355,320), continuation of the Response Awareness, De-escalation and Referral (RADAR) program in 2018 (\$401,368), and jail services costs due to the lower cost to house inmates at Yakima Jail (\$168,065), as well as a delay in contract services to: complete structural and non-structural plan review on a backlog of permits (\$34,291).
- Transportation expenditures were \$806,407 less than budget due to the continuation of the Light Rail Stations project per the Expedited Permitting and Staffing Agreement with Sound Transit, as well as a delay in contracted services to: develop a American with Disability Act Self Evaluation and Transition Plan (\$9,054), complete school district development review (\$417,000), complete development review started in 2017 and not yet completed (\$25,601); and, develop a Streetlight Master Plan (\$24,588), which will continue into 2018.
- Natural and Economic Environment expenditures were \$545,065 less than budget due to staff vacancies, as well as a delay in contract services to: develop an expression of interest perspectus per

a Port of Seattle Economic Development Partnership Program Grant (\$42,290), establish procedures for administering an Affordable Housing Program (\$19,040), continue Minor Home Repair program (\$38,905), and update “forevergreen” sustainability indicator tracking website (\$14,953), which will continue into 2018.

- Culture and Recreation expenditures were \$331,320 less than budget due to savings in staff costs and significantly lower utility costs for the parks, as well as a delay in contract services to complete NPDES repairs documented through Surface Water staff inspections (\$18,800), which will continue into 2017.

The General Capital Fund has a fund balance of \$2,099,479, which will be used for park and recreation capital improvements. The net decrease in fund balance within the General Capital Fund was \$908,177. The primary reason for this decrease is the use of fund balance supporting the Police Station at City Hall project.

The Roads Capital Fund has a fund balance of \$6,468,370, which will be used for transportation capital improvements. The net increase in fund balance within the Roads Capital fund was \$585,984. The primary reason for this increase is increased revenue from real estate excise taxes.

The Non-Major Funds have a fund balance of \$4,578,051, which will be used for: street and right-of-way maintenance; code abatement efforts; training and equipment to support investigations of illegal drug activity; public art projects; collection and use of transportation impact fees; debt service; and, long-term maintenance of City facilities. The net increase in fund balance within these funds was \$356,496 and is largely attributable to receipt of code abatement fine, Traffic Impact Fee, and state seizure monies, which were offset by the expenditure of state and federal seizure monies in support of the Police Station at City Hall project.

**Proprietary funds.** The City’s proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

The total net position of the City’s Surface Water Utility Fund and Wastewater Utility Fund is \$16,201,829. The net position of Surface Water Utility Fund decreased of \$812,660, or 5%. The Wastewater Utility Fund began its operation in October 2017 after an approval of interlocal agreement with Ronald Wastewater District, and its net position at the end of 2017 is \$35,695. The net position available for general surface water operations at the end of 2017 amounted to \$1,577,311. Other factors concerning the finances of this fund have already been addressed in the discussion of the City’s business-type activities.

### **General Fund Budgetary Highlights**

For reporting purposes under GASB 54, the General Fund as reported on the *Statement of Revenues, Expenditures and Changes in Fund Balances for Governmental Funds* consists of three funds: General Fund, Revenue Stabilization Fund, and Property Tax Equalization Fund. The appropriations for these three funds are adopted separately by the City Council. During 2017, the budget was modified only in the General Fund and Property Tax Equalization Fund. No changes in the appropriations were made in the Revenue Stabilization Fund. At the end of 2017, Property Tax Equalization Fund ceased to operate and its assets were transferred to the General Fund. The following discussion is focused on the General Fund appropriation.

During the year there was a \$2,335,048 increase in appropriation between the original and final amended budget of the General Fund. Following are the main components of the change in appropriation:

- \$1,830,788 supplemental appropriation to fund projects initiated in 2016 that were carried over to be completed in 2017. Unexpended resources from 2016 resulted in a higher than anticipated ending 2016 fund balance, which was appropriated for these expenditures in 2017. The primary projects included: support for the light rail stations project (\$194,379); developing an expression of interest prospectus per a Port of Seattle Economic Development Partnership Program Grant (\$50,678); completing B&O Tax Evaluation (\$14,000); completing Computerized Permit and Customer Service

System replacement (\$99,323); completing implementation of Asset Management (\$184,126); completing SharePoint Phase II (\$18,682); purchasing City Hall furniture for Police Station @ City Hall project (\$223,024); Transfer to the Roads Capital Fund for the Westminster & 155<sup>th</sup> Improvements project (\$141,419); Transfer to the Roads Capital Fund for the 185<sup>th</sup> Corridor Study project (\$56,814); continuing the Response Awareness, De-escalation and Referral (RADAR) program (\$521,253); purchasing City Hall furniture for Parks, Recreation and Cultural Services Department (\$5,544); developing a Park Impact Fee (\$24,846); Teen & Youth Development Program training (\$3,349); completing a slope failure analysis (\$10,000); developing Draft Vegetation Management Plan Regulations for Critical Areas (\$48,327); advancing the City's Sustainability Initiative (\$49,650); establishing procedures for administering an Affordable Housing Program (\$30,200); professional services for continuous process improvement (\$4,400); purchasing compost pail/kitchen caddy (\$9,745); consultation on Solid Waste Procurement Contract (\$21,704); developing a American with Disability Act Self Evaluation and Transition Plan (\$32,768); support for revisions and updates of Engineering Development Manual and Codes (\$6,917); On-call development review support (\$8,607); developing a cost estimating tool (\$4,977); support for 145<sup>th</sup> Street Station Pedestrian / Bicycle Access Feasibility Analysis (\$6,056); conducting a tolling study (\$30,000); and, developing a Streetlight Master Plan (\$30,000).

- \$54,990 supplemental appropriation to develop a request for Expressions of Interest Prospectus per a Port of Seattle Economic Development Partnership Program Grant.
- \$8,678 supplemental appropriation for computers, desk phones, and office equipment for three new positions;
- \$8,000 supplemental appropriation to upgrade the dais monitors in Council Chambers;
- \$2,729 supplemental appropriation for recording redundancy in Council Chambers;
- \$7,801 supplemental appropriation for invoice for September – December 2016 from Pacific Office Automation;
- \$3,403 supplemental appropriation for ongoing increase to cover Performance Evaluation Software hosting services, maintenance and support services annual fee;
- \$7,000 supplemental appropriation for Building Monitor extra help;
- \$29,421 supplemental appropriation for City Hall electricity costs;
- \$58,216 supplemental appropriation for increased janitorial services costs;
- \$49,557 supplemental appropriation for Ronald Wastewater District transition costs;
- \$10,000 supplemental appropriation for a transfer to the General Obligation Bond Fund to cover the shortfall in excess property tax levy due to King County Assessor's Office error;
- \$7,763 supplemental appropriation for the conversion of extra help to a 0.50 FTE Public Art Coordinator;
- \$22,621 supplemental appropriation for the addition of a 1.00 FTE Senior Planner;
- \$33,520 supplemental appropriation for the addition of a 1.00 FTE Plans Examiner II;
- \$50,000 supplemental appropriation for professional services support to complete structural and non-structural plan review on a backlog of permits;
- \$68,994 supplemental appropriation for the 2017-2018 Waste Reduction & Recycling Grant;
- \$22,247 supplemental appropriation to reinstate Environmental Services expenditures;
- \$42,320 supplemental appropriation for the addition of a 1.00 FTE Development Review Engineer;
- and,
- \$17,000 supplemental appropriation related to school district development review.

### **Capital Asset and Debt Administration**

**Capital assets.** The city's investment in capital assets for its governmental and business-type activities as of December 31, 2017, totals \$358,425,631 net of accumulated depreciation. These assets include infrastructure, buildings, land, machinery and equipment, vehicles, road improvements, park facilities, and construction-in-progress.

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Land	\$ 135,515,536	\$ 134,126,765	\$ 23,632	\$ 23,632	\$ 135,539,169	\$ 134,150,397
Buildings	26,436,350	27,497,436	-	-	26,436,350	27,497,436
Improvements other than buildings	14,599,522	15,568,998	383,932	391,930	14,983,453	15,960,928
Machinery and equipment	1,817,349	1,524,327	205,419	37,915	2,022,768	1,562,242
Infrastructure	157,953,652	162,534,130	15,629,851	16,048,310	173,583,503	178,582,440
Construction in progress	4,143,567	1,251,874	1,716,822	1,337,541	5,860,389	2,589,415
Total	\$ 340,465,976	\$ 342,503,530	\$ 17,959,656	\$ 17,839,329	\$ 358,425,631	\$ 360,342,859

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

Police Station	\$ 3,911,243
Vehicles, Machinery, and Equipment	603,893
Bike System Implementation	587,589
Echo Lake Safe Routes to School	462,679
Stormwater Pipe Replacement	379,280
Interurban Trail/Burke-Gilman Connectors	366,160
Aurora Ave N Corridor 165th-205th	364,287
Hamlin Maint Facility Improvement	249,740
Curb, Gutter & Sidewalk	156,828

Additional information on the City's capital assets can be found in Note 4 of the Financial Statements.

**Long-term debt.** As of December 31, 2017, the City had total debt outstanding of \$30,596,270. This total amount represents both General Obligation Debt and outstanding Public Works Trust Fund loans. The City issued general obligation bonds in 2006 to be used for open space acquisition and park improvements. These bonds were refunded in 2016 and will be repaid over five years and have fixed interest rates of between 1.02% and 1.72%. They will be repaid by a voter approved property tax levy. The City issued general obligation bonds in 2009 to be used to pay the purchase of City Hall. The 2009 Series A LTGO bonds were paid off in 2017. The 2009 Series B LTGO bonds (Taxable Build America Bonds, Direct-Pay), will be repaid over 30 years and have variable fixed rates of between 4.69% and 6.4%. They will be repaid by real estate excise taxes and General revenues. The City issued 2013 LTGO bonds to finance the purchase of North Maintenance Facility and will repay these bonds over 20 years at a fixed interest rate of 3.75%. They will be repaid by general property taxes. The City issued Surface Water Utility Revenue bond in 2016 for various Surface Water Utility projects, the bonds will be repaid over 15 years and have fixed interest rate of 2.23%. The 2001 Public Works Trust Fund loans were used to complete the Ronald Bog and 3<sup>rd</sup> Avenue NW drainage improvement projects. These loans will be paid back over a 20 year period and have a fixed interest rate of 0.5%. The repayment will come from surface water utility fees.

**City of Shoreline's Outstanding Debt**  
General Obligation and Revenue Backed Debt

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
General Obligation	\$ 27,404,000	\$ 29,680,000	\$ 1,886,372	\$ 2,000,000	\$ 29,290,372	\$ 31,680,000
Public Works Trust Fund Loans	-	-	1,305,898	1,632,374	1,305,898	1,632,374
Total	\$ 27,404,000	\$ 29,680,000	\$ 3,192,270	\$ 3,632,374	\$ 30,596,270	\$ 33,312,374

The City's total outstanding debt decreased \$2,716,103 during 2017. This change was the result of decrease by principal payment of \$2,389,628 on general obligation debt and the principal payment of \$326,475 on the Public Works Trust Fund Loan. Washington State statutes limit the amount of general

obligation debt that a unit of government can issue to 7.5 percent of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for the City is \$663,380,500. The City has \$29,290,372 in outstanding general obligation debt as of December 31, 2017. Additional information regarding the City's long-term debt can be found in Note 10 of the Financial Statements.

### **Economic Factors and Next Year's Budgets and Rates**

The following factors were considered in preparing the City's budget for the 2018 fiscal year.

- Employment is expected to advance at annual rates of 1.8% throughout Puget Sound and 1.1% throughout King County between 2017 and 2020.
- Unemployment is expected to remain constant at 3.1% between 2017 and 2018.
- Taxable retail sales are projected to advance at annual rates of 4.2% throughout Puget Sound and 4.3% throughout King County between 2017 and 2020.
- The number of housing permits issued is expected to decline by 4.1% throughout Puget Sound and 6.2% throughout King County between 2017 and 2020.
- Personal income in King County is expected to increase by 12.4% between 2017 and 2020.

Since the adoption of the 2018 budget, revenues have come in above projected levels. Retail sales tax and development fees are higher than expected. At this time, we are recommending that no budget changes be made in any of the City's revenue sources.

During 2017 the fund balance in the General Fund, excluding the Revenue Stabilization and Property Tax Equalization Funds, increased by \$1,179,731 to \$14,049,641. The total fund balance includes committed, assigned, and unassigned balances. The City's Reserve policy for the General Fund requires a Cash Flow Reserve of \$3,000,000, a Budget Contingency of 2% of operating revenues (\$838,338), and an Insurance Reserve of \$255,000) equaling a total required reserve of \$4,093,338. This required reserve level represents 9.7% of the 2018 General Fund budgeted expenditures excluding transfers out of \$42,314,411. The City currently maintains reserves that are more than three times the required level of reserves.

### **Requests for Information**

The financial report is designed to provide a general overview of the City'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 the City of Shoreline Administrative Services Director, 17500 Midvale Ave N., Shoreline, WA 98133-4905.

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

MCAG No. 1015

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 1,885,817	\$ 103,212	\$ 1,989,029
Investments	33,111,631	2,317,954	35,429,585
Receivables:			
Taxes	243,340	-	243,340
Accounts	1,925,192	149,906	2,075,098
Interest	99,498	7,109	106,607
Due from Other Governments	3,987,556	24,332	4,011,888
Prepayments	188,785	34,784	223,569
Notes/Contracts Receivable	26,471	-	26,471
Interfund Loan Receivable	-	565,604	565,604
Capital assets not being depreciated:			
Land	135,515,536	23,632	135,539,169
Construction in Progress	4,143,567	1,716,822	5,860,389
Capital Assets Net of Accumulated Depreciation:			
Buildings	26,436,350	-	26,436,350
Improvements Other than Buildings	14,599,522	383,932	14,983,453
Machinery and Equipment	1,817,349	205,419	2,022,768
Infrastructure	157,953,652	15,629,851	173,583,503
Total capital assets	<u>340,465,976</u>	<u>17,959,656</u>	<u>358,425,631</u>
Total assets	<u>381,934,265</u>	<u>21,162,557</u>	<u>403,096,822</u>
<b>DEFERRED OUTFLOWS of RESOURCES</b>			
Deferred Outflows - Pension	1,727,654	163,562	1,891,216
Total Assets and Deferred Outflows of Resources	<u>383,661,919</u>	<u>21,326,119</u>	<u>404,988,038</u>
<b>LIABILITIES</b>			
Current Liabilities:			
Accounts Payable	1,792,940	409,167	2,202,107
Salaries, Taxes & Benefits Payable	584,731	92,777	677,507
Interest Payable	76,550	6,770	83,320
Retainage Payable	93,127	10,374	103,501
Deposits	60,038	-	60,038
Interfund Loan Payable	565,604	-	565,604
Due to Other Governments	1,794,867	299,304	2,094,171
Noncurrent Liabilities:			
Due Within One Year	2,309,000	442,760	2,751,760
Due in More Than One Year	26,136,124	2,907,031	29,043,156
Due in More Than One Year-Net Pension Liability	8,340,353	821,755	9,162,108
Total liabilities	<u>41,753,333</u>	<u>4,989,938</u>	<u>46,743,270</u>
<b>DEFERRED INFLOWS of RESOURCES</b>			
Deferred inflows - Pension	1,365,196	134,352	1,499,548
Deferred inflows - Grants	259,049	-	259,049
Deferred inflows - Loss on Refunding	17,980	-	17,980
Deferred inflows - Other	295,143	-	295,143
Total deferred inflows of resources	<u>1,937,369</u>	<u>134,352</u>	<u>2,071,721</u>
<b>NET POSITION</b>			
Net investment in Capital Assets	313,036,686	14,767,385	327,804,072
Restricted			
State Drug Enforcement Seizures	465,729	-	465,729
Fed Drug Enforcement Seizures	69,543	-	69,543
Transportation Impact Fees	2,205,453	-	2,205,453
Debt Service	2,276	-	2,276
Capital Improvements	1,298,940	-	1,298,940
Unrestricted	22,892,590	1,434,444	24,327,034
Total net position	<u>\$ 339,971,218</u>	<u>\$ 16,201,829</u>	<u>\$ 356,173,047</u>

CITY OF SHORELINE  
STATEMENT OF ACTIVITIES  
YEAR ENDED DECEMBER 31, 2017

MCAG No. 1015

Function/Program	Program Revenues				Net (Expenses) Revenues and Change in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
<b>Governmental Activities</b>							
General Government Services	\$ 11,256,473	\$ 3,070,622	\$ 1,202,818	\$ 22,196	\$ (6,960,836)	\$ -	\$ (6,960,836)
Public Safety	15,641,312	489,336	988,525	-	(14,163,450)	-	(14,163,450)
Transportation	14,092,948	1,253,556	1,745,669	2,782,134	(8,311,589)	-	(8,311,589)
Natural & Economic Environment	3,241,635	2,548,346	534,963	-	(158,326)	-	(158,326)
Culture and Recreation	8,942,388	1,781,503	16,186	266,726	(6,877,973)	-	(6,877,973)
Interest on Long-Term Debt	1,338,135	-	-	-	(1,338,135)	-	(1,338,135)
Total Governmental Activities	54,512,890	9,143,363	4,488,161	3,071,056	(37,810,309)	-	(37,810,309)
<b>Business-Type Activities</b>							
Surface Water & Wastewater	5,051,481	4,604,158	47,053	34,477	-	(365,792)	(365,792)
Total Business-Type Activities	5,051,481	4,604,158	47,053	34,477	-	(365,792)	(365,792)
<b>General Revenues:</b>							
<b>Taxes</b>							
Property Taxes, Levied for General Purposes					12,191,329	-	12,191,329
Property Taxes, Levied for 2006 GO Bond					1,684,677	-	1,684,677
Retail Sales Taxes					10,153,986	-	10,153,986
Business Taxes					5,300,843	-	5,300,843
Excise Taxes					4,570,695	-	4,570,695
Utility Contract Payment					2,055,988	-	2,055,988
Investment Earnings					300,675	21,831	322,506
Miscellaneous					513,294	46,303	559,598
Gain from Sale of Capital Assets					77,865	-	77,865
Insurance Recovery					20,819	2,825	23,644
Transfers					660,694	(660,694)	-
Special Items					956,400	178,562	1,134,962
Total General Revenues, Special items, and Transfers					38,487,265	(411,173)	38,076,091
Change in Net Position					676,955	(776,965)	(100,010)
Net Position - Beginning of Year					339,294,263	16,978,794	356,273,057
Net Position - End of Year					\$ 339,971,218	\$ 16,201,829	\$ 356,173,047

The accompanying notes are an integral part of this statement.

**CITY OF SHORELINE  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2017**

MCAG No. 1015

	General Fund	General Capital Fund	Roads Capital Fund	Other Governmental Funds	Total Governmental Funds
<b>ASSETS and DEFERRED OUTFLOWS of RESOURCES</b>					
Cash and cash equivalents	\$ 435,075	\$ 833,626	\$ 6,240	\$ 552,273	\$ 1,827,215
Investments	19,292,304	1,730,856	5,867,954	3,587,506	30,478,619
Receivables:					
Taxes	205,547	-	-	37,793	243,340
Accounts	1,890,792	-	-	34,400	1,925,192
Interest	59,719	3,690	17,428	10,580	91,418
Due from Other Governments	1,902,500	354,223	1,260,665	470,168	3,987,556
Prepayments	162,956	1,825	9,768	10,579	185,128
Notes/Contracts Receivable	26,471	-	-	-	26,471
<b>Total assets</b>	<b>23,975,365</b>	<b>2,924,220</b>	<b>7,162,055</b>	<b>4,703,298</b>	<b>38,764,938</b>
Deferred Outflows of Resources	-	-	-	-	-
<b>Total Assets and Deferred Outflows of Resources</b>	<b>\$ 23,975,365</b>	<b>\$ 2,924,220</b>	<b>\$ 7,162,055</b>	<b>\$ 4,703,298</b>	<b>\$ 38,764,938</b>
<b>LIABILITIES, DEFERRED INFLOWS of RESOURCES and FUND BALANCES:</b>					
Liabilities:					
Accounts Payable	\$ 673,854	\$ 797,863	\$ 280,503	\$ 23,962	\$ 1,776,181
Salaries, Taxes & Benefits Payable	518,789	5,635	29,834	22,189	576,447
Retainage Payable	54,517	16,386	22,223	-	93,127
Unearned Revenues	740,061	-	-	32,968	773,029
Deposits	20,963	-	39,075	-	60,038
Interfund Loan Payable	565,604	-	-	-	565,604
Due to Other Governments	1,695,854	423	72,050	8,335	1,776,661
<b>Total Liabilities</b>	<b>4,269,641</b>	<b>820,307</b>	<b>443,685</b>	<b>87,454</b>	<b>5,621,087</b>
Deferred Inflows of Resources					
Deferred inflows - Other	290,709	4,434	-	-	295,143
Deferred inflows - Grants	9,049	-	250,000	-	259,049
Deferred inflows - Property Tax	205,547	-	-	37,793	243,340
<b>Total Deferred Inflows</b>	<b>505,306</b>	<b>4,434</b>	<b>250,000</b>	<b>37,793</b>	<b>797,533</b>
Fund Balances:					
Nonspendable	162,956	1,825	9,768	10,579	185,128
Restricted	-	251,740	1,047,200	2,743,001	4,041,941
Committed	9,251,115	-	-	-	9,251,115
Assigned	3,255,132	1,845,914	5,411,402	1,824,471	12,336,919
Unassigned	6,531,215	-	-	-	6,531,215
<b>Total Fund Balances</b>	<b>19,200,418</b>	<b>2,099,479</b>	<b>6,468,370</b>	<b>4,578,051</b>	<b>32,346,318</b>
<b>Total Liabilities, Deferred Inflows of Resources and Fund Balances</b>	<b>\$ 23,975,365</b>	<b>\$ 2,924,220</b>	<b>\$ 7,162,055</b>	<b>\$ 4,703,298</b>	

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	339,057,197
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	773,029
Deferred outflows related to pension costs are not reported on fund balance sheets	1,727,654
Long-term liabilities, including bonds payable, are not due and payable in the current period and accordingly are not reported as fund liabilities.	(36,862,027)
Deferred Inflows for property taxes are deferred in funds.	243,340
Deferred inflows related to unamortized balances of deferred charges for refunding are not reported in fund balance sheets	(17,980)
Deferred Inflows for pensions are not reported on fund balance sheets	(1,365,196)
Internal service funds are used by management to charge the costs of fleet management and unemployment to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position.	4,068,882

Net Position of Governmental Activities

4,068,882  
\$ 339,971,218

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

MCAG No. 1015

<b>REVENUES</b>	<b>General Fund</b>	<b>General Capital</b>	<b>Roads Capital</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
Taxes	\$ 27,636,731	\$ 1,866,612	\$ 1,866,612	\$ 1,682,952	\$ 33,052,908
Licenses & Permits	4,557,663	-	245	-	4,557,908
Intergovernmental	3,935,920	425,372	2,814,819	1,612,919	8,789,030
Charges for Services	2,361,315	-	830,269	986,968	4,178,552
Fines & Forfeits	423,469	-	-	7,397	430,865
Investment Earnings	166,443	19,065	48,646	43,038	277,192
Miscellaneous	1,317,480	22,294	7	810,596	2,150,377
Total Revenues	40,399,021	2,333,343	5,560,598	5,143,870	53,436,833
<b>EXPENDITURES</b>					
Current:					
General Government Services	9,776,698	175,112	-	947	9,952,756
Public Safety	15,487,995	65,752	-	18,591	15,572,338
Transportation	2,708,782	-	3,286,609	1,171,024	7,166,416
Natural & Economic Environment	3,234,604	-	-	-	3,234,604
Culture & Recreation	5,967,427	1,484,271	-	174,265	7,625,963
Debt Service:					
Principal	-	-	-	2,276,000	2,276,000
Interest and Other Related Costs	-	-	-	1,347,663	1,347,663
Capital Expenditures:					
General Government	8,681	-	-	-	8,681
Public Safety	-	3,911,243	-	-	3,911,243
Culture & Recreational	-	249,740	-	5,500	255,240
Transportation	-	-	1,955,527	-	1,955,527
Total Expenditures	37,184,188	5,886,118	5,242,136	4,993,989	53,306,431
Excess (Deficiency) of Revenues over Expenditures	3,214,834	(3,552,775)	318,462	149,881	130,402
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers In	1,030,288	3,384,933	339,484	1,946,010	6,700,715
Transfers Out	(3,574,900)	(740,876)	(71,963)	(1,752,008)	(6,139,746)
Proceeds from the Sale of Capital Assets	2,571	540	-	7,145	10,256
Insurance Recoveries	-	-	-	5,469	5,469
Total other financing sources and uses	(2,542,041)	2,644,598	267,521	206,615	576,694
Net Change in Fund Balances	672,793	(908,177)	585,984	356,496	707,096
Fund balances - beginning	18,527,625	3,007,656	5,882,386	4,221,555	31,639,222
Fund balances - ending	\$ 19,200,418	\$ 2,099,479	\$ 6,468,370	\$ 4,578,051	\$ 32,346,318

The accompanying notes are an integral part of this statement.

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

MCAG No. 1015

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

Net change in fund balances - total governmental funds	\$	707,096
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded/ (were less than) depreciation in the current period.		(3,036,049)
The issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on the net position. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.		2,273,541
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds		66,717
The net effect of various miscellaneous transactions involving capital assets (i.e. sales and donations) is to increase net assets		956,400
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 governmental funds.		(78,312)
Internal service funds are used by management to charge the costs of fleet management, management information systems, and unemployment to individual funds. The net revenue of certain activities of internal service funds is reported with governmental activities.		<u>(212,438)</u>
Change in net position of governmental activities	\$	<u>676,955</u>

The accompanying notes are an integral part of this statement.

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

MCAG No. 1015

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>REVENUES</b>				
Taxes	\$ 27,777,170	\$ 27,777,170	\$ 27,636,731	\$ (140,439)
Licenses & Permits	3,867,685	4,126,299	4,557,663	431,364
Intergovernmental	4,258,859	5,181,796	3,935,920	(1,245,876)
Charges for Services	1,773,801	2,254,084	2,361,315	107,231
Fines & Forfeits	454,050	454,050	423,469	(30,581)
Investment Earnings	69,000	69,000	166,443	97,443
Miscellaneous	1,345,437	1,374,437	1,317,480	(56,957)
Total revenues	39,546,002	41,236,836	40,399,021	(837,815)
<b>EXPENDITURES</b>				
General Government Services	12,136,033	12,766,386	9,776,698	(2,989,688)
Public Safety	16,186,004	16,819,166	15,487,995	(1,331,171)
Transportation	3,248,225	3,515,189	2,708,782	(806,407)
Natural & Economic Environment	3,381,485	3,779,669	3,234,604	(545,065)
Culture & Recreation	6,100,595	6,298,747	5,967,427	(331,320)
Capital Exps - General Government	8,681	8,681	8,681	-
Capital Exps - Transportation	-	-	-	-
Total expenditures	41,061,023	43,187,838	37,184,188	(6,003,650)
Excess (Deficiency) of Revenues over Expenditures	(1,515,021)	(1,951,002)	3,214,834	5,165,836
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers In	1,531,087	1,675,308	1,030,288	(645,020)
Transfers Out	(5,408,028)	(5,622,400)	(3,574,900)	2,047,500
Proceeds from the Sale of Capital Assets	-	-	2,571	2,571
Insurance Recoveries	15,000	15,000	-	(15,000)
Total other financing sources and uses	(3,861,941)	(3,932,092)	(2,542,041)	1,390,051
Net change in fund balances	(5,376,962)	(5,883,094)	672,793	6,555,887
Fund balances - beginning	6,612,072	7,682,962	18,527,625	10,844,663
Fund balances - ending	\$ 1,235,110	\$ 1,799,868	\$ 19,200,418	\$ 17,400,550

The accompanying notes are an integral part of this statement.

**City of Shoreline, Washington**  
**Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual**  
**General Fund - Reconciliation**  
**For Year Ended December 31, 2017**

	Budgeted Amounts			Actual Amounts	Variance to Final Budget
	Original	Final			
<b>OTHER FINANCING SOURCES (USES):</b>					
Operating Transfers In - General Fund, As Adopted	\$ 1,531,087	\$ 1,675,308	\$ 1,537,226	\$ (138,082)	
Operating Transfers Out - Property Tax Equalization Fund	(506,938)	(506,938)	(506,938)	-	
Operating Transfers In - General Fund, As Reported	<b>\$ 1,024,149</b>	<b>\$ 1,168,370</b>	<b>\$ 1,030,288</b>	<b>\$ (138,082)</b>	
<b>FUND BALANCES - BEGINNING</b>					
General Fund, As Adopted	\$ 6,111,273	\$ 7,176,024	\$ 12,869,910	\$ 5,693,886	
Revenue Stabilization Fund	-	-	5,150,777	5,150,777	
Property Tax Equalization Fund	500,799	506,938	506,938	-	
Beginning Fund Balances - General Fund, As Reported	<b>\$ 6,612,072</b>	<b>\$ 7,682,962</b>	<b>\$ 18,527,625</b>	<b>\$ 10,844,663</b>	
<b>FUND BALANCES - ENDING</b>					
General Fund, As Adopted	\$ 1,235,110	\$ 1,799,868	\$ 14,049,641	\$ 12,249,773	
Revenue Stabilization Fund	-	-	5,150,777	5,150,777	
Ending Fund Balance - General Fund, As Reported	<b>\$ 1,235,110</b>	<b>\$ 1,799,868</b>	<b>\$ 19,200,418</b>	<b>\$ 17,400,550</b>	

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

MCAG No. 1015

	Business-Type Activities			Governmental
	Surface Water Utility Fund	Wastewater Utility Fund	Total Enterprise Funds	Internal Service Funds
<b>ASSETS and DEFERRED OUTFLOWS of RESOURCES</b>				
Current Assets:				
Cash and cash equivalents	\$ 48,978	\$ 54,235	\$ 103,212	\$ 58,602
Investments	1,963,368	354,586	2,317,954	2,633,012
Receivables				
Accounts	144,263	5,642	149,906	-
Interest	6,065	1,044	7,109	8,080
Due from Other Governments	24,332	-	24,332	-
Prepayments	15,670	19,114	34,784	3,657
Total current assets	<u>2,202,676</u>	<u>434,621</u>	<u>2,637,296</u>	<u>2,703,351</u>
Noncurrent Assets:				
Interfund Loan Receivable	565,604	-	565,604	-
Capital assets not being depreciated:				
Land	23,632	-	23,632	-
Construction in Progress	1,716,822	-	1,716,822	-
Capital assets being depreciated:				
Improvements other than buildings	383,932	-	383,932	-
Machinery & Equipment	26,857	178,562	205,419	1,408,779
Infrastructure	15,629,851	-	15,629,851	-
Total capital assets (net)	<u>17,781,094</u>	<u>178,562</u>	<u>17,959,656</u>	<u>1,408,779</u>
Total noncurrent assets	<u>18,346,698</u>	<u>178,562</u>	<u>18,525,260</u>	<u>1,408,779</u>
<b>TOTAL ASSETS</b>	<u>20,549,374</u>	<u>613,183</u>	<u>21,162,557</u>	<u>4,112,130</u>
<b>DEFERRED OUTFLOWS of RESOURCES</b>				
Deferred Outflows - Pension	142,319	21,243	163,562	-
<b>LIABILITIES</b>				
Current Liabilities:				
Accounts Payable	394,085	15,082	409,167	16,759
Salaries, Taxes & Benefits Payable	44,263	48,513	92,777	8,284
Public Works Trust Fund Loan Payable	326,475	-	326,475	-
2016 Revenue Bonds Payable	116,285	-	116,285	-
Interest Payable	6,770	-	6,770	-
Retainage Payable	10,374	-	10,374	-
Due to Other Governments	52,862	246,442	299,304	18,206
Total current liabilities	<u>951,114</u>	<u>310,037</u>	<u>1,261,152</u>	<u>43,248</u>
Noncurrent Liabilities:				
Compensated Absences Payable	47,531	109,989	157,520	-
2016 Revenue Bonds Payable	1,770,087	-	1,770,087	-
Public Works Trust Fund Loan Payable	979,424	-	979,424	-
Net Pension Liability	667,973	153,782	821,755	-
Total noncurrent liabilities	<u>3,465,015</u>	<u>263,771</u>	<u>3,728,786</u>	<u>-</u>
<b>TOTAL LIABILITIES</b>	<u>4,416,129</u>	<u>573,809</u>	<u>4,989,938</u>	<u>43,248</u>
<b>DEFERRED INFLOWS of RESOURCES</b>				
Deferred Inflows - Pension	109,430	24,922	134,352	-
<b>NET POSITION</b>				
Net Investment in Capital Assets	14,588,823	178,562	14,767,385	1,408,779
Unrestricted	1,577,311	(142,867)	1,434,444	2,660,104
<b>TOTAL NET POSITION</b>	<u>\$ 16,166,134</u>	<u>\$ 35,695</u>	<u>\$ 16,201,829</u>	<u>\$ 4,068,882</u>

The accompanying notes are an integral part of this statement.

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

MCAG No. 1015

	Business-Type Activities			Governmental Activities
	Surface Water Utility Fund	Wastewater Utility Fund	Total Enterprise Funds	Internal Service Funds
<b>OPERATING REVENUES:</b>				
Charges for Services	\$ 4,162,254	\$ 441,904	\$ 4,604,158	\$ 790,459
Total operating revenues	<u>4,162,254</u>	<u>441,904</u>	<u>4,604,158</u>	<u>790,459</u>
<b>OPERATING EXPENSES:</b>				
Administration and General Operations	1,483,536	547,717	2,031,253	231,694
Maintenance and Operations	2,456,736	43,160	2,499,895	339,206
Depreciation	462,186	-	462,186	213,288
Total operating expenses	<u>4,402,457</u>	<u>590,877</u>	<u>4,993,333</u>	<u>784,188</u>
Operating income	<u>(240,202)</u>	<u>(148,973)</u>	<u>(389,175)</u>	<u>6,271</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Interest Income	21,367	463	21,831	23,483
Miscellaneous	40,661	5,642	46,303	-
Interest and Other Related Costs	(58,147)	-	(58,147)	-
Intergovernmental	47,053	-	47,053	-
Total Nonoperating revenues (expenses)	<u>50,935</u>	<u>6,106</u>	<u>57,040</u>	<u>23,483</u>
<b>INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS</b>	<u>(189,268)</u>	<u>(142,867)</u>	<u>(332,135)</u>	<u>29,754</u>
Capital Contributions - Other Governments	34,477	-	34,477	-
Gain/(Loss) from Sale of Capital Assets	-	-	-	67,609
Insurance Recovery	2,825	-	2,825	15,350
Transfers In	-	-	-	99,725
Transfers Out	(660,694)	-	(660,694)	-
Special/Extraordinary Items	-	178,562	178,562	-
<b>CHANGE IN NET POSITION</b>	<u>(812,660)</u>	<u>35,695</u>	<u>(776,965)</u>	<u>212,438</u>
<b>NET POSITION</b>				
Total unassigned net position - beginning	16,978,794	-	16,978,794	3,856,444
Total unassigned net position - ending	<u>\$ 16,166,134</u>	<u>\$ 35,695</u>	<u>\$ 16,201,829</u>	<u>\$ 4,068,882</u>

The accompanying notes are an integral part of this statement.

**CITY OF SHORELINE  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2017**

MCAG No. 1015

	Business-Type Activities			Governmental Activities
	Surface Water Utility Fund	Wastewater Utility Fund	Total Enterprise Funds	Internal Service Funds
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Receipts from customers	\$4,105,196.47	\$ 441,904	\$ 4,547,100	\$ -
Receipts from interfund services provided	-	-	-	790,459
Payments to suppliers	(2,416,405)	198,578	(2,217,827)	(401,223)
Payments to employees	(1,319,333)	(231,081)	(1,550,414)	(219,375)
Payments for interfund services used	(227,935)	-	(227,935)	-
Net cash provided by operating activities	<u>141,523</u>	<u>409,401</u>	<u>550,925</u>	<u>169,861</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
Operating grants	47,053	-	47,053	-
Interfund loan receivable	(141,289)	-	(141,289)	-
Transfers (to) / from funds	(660,694)	-	(660,694)	99,725
Miscellaneous revenues	40,661	-	40,661	-
Net cash provided (used) by noncapital activities	<u>(714,269)</u>	<u>-</u>	<u>(714,269)</u>	<u>99,725</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Acquisition and construction of capital assets	(404,266)	-	(404,266)	(603,893)
Principal paid on capital debt	(440,103)	-	(440,103)	-
Interest paid on capital debt	(56,138)	-	(56,138)	-
Insurance recovery	2,825	-	2,825	15,350
Capital grants	210,623	-	210,623	-
Proceeds from sale of capital assets	-	-	-	67,609
Net cash provided (used) by capital and related financing	<u>(687,058)</u>	<u>-</u>	<u>(687,058)</u>	<u>(520,933)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Receipts of investment income	15,302	(581)	14,722	17,392
Proceeds from the sale of investments	6,482,751	348,863	6,831,614	6,742,574
Purchase of investments	(7,405,008)	(703,449)	(8,108,456)	(7,405,371)
Net cash provided by investing activities	<u>(906,954)</u>	<u>(355,167)</u>	<u>(1,262,121)</u>	<u>(645,405)</u>
Net increase (decrease) in cash and cash equivalents	(2,166,758)	54,235	(2,112,523)	(896,752)
Cash and cash equivalents, January 1	<u>2,215,735</u>	<u>-</u>	<u>2,215,735</u>	<u>955,354</u>
Cash and cash equivalents, December 31	<u>48,978</u>	<u>54,235</u>	<u>103,212</u>	<u>58,602</u>
<b>Reconciliation of operating income to net cash provided (used) by operating activities:</b>				
Operating Income (Loss)	<u>(240,202)</u>	<u>(148,973)</u>	<u>(389,175)</u>	<u>6,271</u>
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities:				
Depreciation expense	462,186	-	462,186	213,288
(Increase) Decrease in accounts receivable	(27,296)	-	(27,296)	-
(Increase) Decrease in delinquent fee receivable	(29,762)	-	(29,762)	-
(Increase) Decrease in prepaids	713	(19,114)	(18,401)	(12)
(Increase) Decrease in deferred outflows - pension	26,245	(21,243)	5,002	-
Increase (Decrease) in wages and benefits payable	1,083	48,513	49,596	8,284
Increase (Decrease) in accounts payable	17,508	15,082	32,590	(60,478)
Increase (Decrease) in intergovernmental payables	14,038	246,442	260,480	2,508
Increase (Decrease) in compensated absences payable	363	109,989	110,353	-
Increase (Decrease) in net pension liability	(176,152)	153,782	(22,370)	-
Increase (Decrease) in deferred inflows - pension	92,800	24,922	117,722	-
Total adjustments	<u>381,726</u>	<u>558,374</u>	<u>940,100</u>	<u>163,590</u>
Net cash provided by operating activities	<u>\$141,523</u>	<u>\$409,401</u>	<u>\$550,925</u>	<u>\$169,861</u>
<b>Noncash investing, capital, and financing activities:</b>				
Increase (Decrease) in fair value of investments	536	(860)	(323)	231
Capital assets transferred from Ronald Wastewater District	-	178,562	178,562	-

The accompanying notes are an integral part of this statement.

**CITY OF SHORELINE, WASHINGTON  
STATEMENT OF NET POSITION  
FIDUCIARY FUNDS  
DECEMBER 31, 2017**

MCAG No. 1015

<b>AGENCY FUND</b>
------------------------

**ASSETS and DEFERRED OUTFLOWS of RESOURCES**

Current Assets:

Cash and cash equivalents	\$ 573,267
<b>TOTAL ASSETS</b>	<b>573,267</b>

**DEFERRED OUTFLOWS of RESOURCES**

TOTAL DEFERRED OUTFLOWS of RESOURCES	-
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**LIABILITIES**

Current Liabilities:

Due to Other Governments	2,689
Custodial Accounts	570,578
<b>TOTAL LIABILITIES</b>	<b>573,267</b>

**DEFERRED INFLOWS of RESOURCES**

TOTAL DEFERRED INFLOWS of RESOURCES	-
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The accompanying notes are an integral part of this statement.

## **Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the City of Shoreline 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. REPORTING ENTITY**

The City of Shoreline was incorporated on August 31, 1995 and operates under the laws of the state of Washington applicable to a non-charter code city with a Council-Manager form of government. Shoreline is administered by a City Manager and a seven member City Council, with one of its members serving as Mayor. The City's major operations are as authorized under the laws of the State of Washington applicable to a non-charter code city.

### **B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

The Government-Wide Financial Statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the non-fiduciary activities of the City. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. The City's policy is not to allocate indirect costs to a specific function. 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 and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. 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, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

### **C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND 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 and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied.

The financial statements for governmental funds are prepared using the current resources measurement focus and the modified accrual basis of accounting. Revenues are recorded when susceptible to accrual; when they are both measurable and available. Available means collectible within the current period or soon enough thereafter (generally 60 days) to pay current liabilities. Revenues that are measurable but not available are recorded as receivables and offset by deferred inflows of resources. The City considers property taxes collected within 60 days of year end to be available. Intergovernmental revenues received as reimbursement for specific purposes are recognized when the expenditures are recognized. Intergovernmental revenues and recreation revenues received but not earned are recorded as unearned revenues. Franchise fees, licenses, fines, penalties, and miscellaneous revenues are recorded as revenues when received in cash because they are generally not measurable until actually received. Investment earnings are accrued when earned.

Retail Sales and Use Taxes: Accounting for Taxpayer-Assessed Tax Revenues in Governmental Funds, requires that revenues from taxpayer-assessed taxes such as sales taxes, net of estimated refunds, should be recognized in the accounting period in which they become susceptible to accrual - that is, when they become both measurable and available to finance expenditures of the fiscal period. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Current year sales taxes to be received in February of the ensuing year have been judged impractical to accrue in the current year and accordingly are not presented within these financial statements.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to the long-term portion of compensated absences and claims and judgments, are recorded only when payment is due.

The City reports the following major governmental funds:

#### General Fund

The General Fund is the City's operating fund. It accounts for all financial resources and transactions of the general government except those required to be accounted or elected to be accounted for in another fund. Major resources include property tax, sales tax, utility tax and franchise fees, gambling tax, licenses and permits, charges for services and intergovernmental revenue. Major programs include public safety (police, prosecuting attorney, jail housing, permitting, building inspection, and code enforcement), general governmental services (finance, legal, human resources, and facilities), culture and recreation (parks and recreation), natural and economic environment (economic development, planning, and environmental services).

#### General Capital Improvement Fund

This fund receives resources designated specifically for capital purposes such as proceeds from the 2006 General Obligation Bond and the 2013 Limited Tax General Obligation Bond as well as real estate excise tax. Projects in the General Capital Fund are divided into two major categories: facilities projects and parks projects.

#### Roads Capital Improvement Fund

This fund receives resources designated specifically for transportation related capital purposes such as funding from the TBD, real estate excise tax, capital grants, and support from the General Fund. Projects in the Roads Capital Fund are divided into three major categories: pedestrian/non-motorized projects, system preservation projects, and safety/operational projects.

The City reports the following major proprietary fund:

#### Surface Water Utility Enterprise Fund

This fund accounts for the resources received and expenses required for the operations of the City's surface water utility and construction of capital facilities. The primary revenue source for this fund is a storm drainage fee which is assessed annually against both residential and commercial properties.

#### Wastewater Utility Fund

This fund accounts for the resources received and a portion of the expenses required for the Ronald Wastewater District utility. The primary revenue source is fees for services paid by the Ronald Wastewater District to the City for operating of the wastewater utility. See the Wastewater Utility Fund footnote for more detailed information on the arrangement entered into by the City.

Additionally, the City reports the following fund types:

Debt Service Funds account for the accumulation of resources for the payment of general obligation bond principal, interest and related costs.

Internal Service Funds account for equipment rental and fleet management provided to other departments of the City on a cost reimbursement basis. Also included is the management of unemployment related costs which is solely funded by the General Fund and is not charged on a reimbursement basis.

The Agency Fund is used to account for the collection of state sales tax and other fees of the State of Washington or other special districts. The City serves as the fiduciary agent for the Northshore/Shoreline Community Network. Their checkbook balances are reported within the Northshore/Shoreline Community Network Agency Fund.

As a general rule the effect of interfund activity has been eliminated from the Government-Wide Financial Statements.

Amounts reported as program revenues include 1) charges to customers, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than program revenues. 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 surface water utility fund are surface water utility fees. The primary operating revenues of the internal service funds are interfund charges for services. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first when possible, then to use unrestricted resources as needed.

## **D. BUDGETARY INFORMATION**

### **1. Budgetary Basis of Accounting**

Annual appropriated budgets are adopted for the general, special revenue, debt service, internal service, and proprietary funds on the modified accrual basis of accounting and constitute the legal authority for expenditures. The appropriated budget is prepared by fund, and department.

Appropriations in all budgeted funds lapse at the end of the fiscal year even if they have related encumbrances. Encumbrances are commitments related to unperformed (executory) contracts for goods or services (i.e., purchase orders, contracts, and commitments).

Encumbrance accounting is utilized to the extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning and control. While all appropriations and encumbrances lapse at year end, valid outstanding encumbrances (those for which performance under the executory contract is expected in the next year) are re-appropriated and become part of the subsequent year's budget pursuant to state regulations.

### **2. Amending the Budget**

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

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

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 for the General Fund. 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.

## **E. ASSETS, DEFERRED OUTFLOWS, LIABILITIES, DEFERRED INFLOWS AND EQUITIES**

### **1. Cash and Cash Equivalents**

As of December 31, 2017, the City was holding \$1,989,029 in cash and cash equivalents. The amounts reported as cash and cash equivalents also include compensating balances maintained with certain banks in lieu of payments for services rendered. The average compensating balances maintained during 2017 were approximately \$2,835,676.

For purposes of the statement of cash flows, the City considers all highly liquid investments to be cash held in the City's bank accounts, petty cash, and change accounts and are therefore included as cash equivalents.

### **2. Investments (See Note 2 *Deposits and Investments*)**

### **3. Receivables**

Taxes Receivable consist of property taxes, surface water utility taxes, and related interest and penalties (see Note 3 *Property Taxes*). Accrued Interest Receivable consists of amounts earned on investments, notes, and contracts at the end of the year.

Customer Accounts Receivable consist of amounts owed from private individuals or organizations for goods and services including amounts owed for which billings have not been prepared. Notes and contracts receivable consist of amounts owed on open account from private individuals or organizations for goods or services rendered and for taxes due to the City.

**4. Amounts Due to and from Other Funds and Governments, Interfund Loans and Advances Receivable**

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as interfund loans receivable/payable. There was one outstanding interfund loan on December 31, 2017 totaling \$565,604 due from the General Fund to the Surface Water Management Fund. All other outstanding balances between funds are reported as due to/from other funds. For more information regarding interfund loans are disclosed in Note 12, Interfund Receivables, Payables and Transfers.

Any residual balances outstanding between governmental activities and business-type activities are reported in the government-wide financial statements as internal balances.

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

**5. Capital Assets**

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$4,999 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

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

The costs for normal maintenance and repairs are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of the capital assets of business-type activities is included as part of the capitalized value of the assets constructed to the extent that the interest expense exceeds the investment interest earnings on any proceeds restricted for capital purposes. The total interest expense incurred in the Surface Water Utility Fund during the current fiscal year is \$58,147. Of this amount, none was included as part of the cost of capital assets under construction since the construction projects were completed in prior years.

Property, plant, and equipment of the City is depreciated using the straight-line method over the following estimated useful lives:

Asset Class	Years
Buildings	20-30
Infrastructure	25-80
Other Improvements	2-50
Vehicles	5-10
Computer Equipment	3-5

See Note 4 *Capital Assets* for additional information.

**6. Pensions**

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

## **7. Deferred Outflows**

In addition to assets, the statement of financial position reports a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position which applies to future period(s) and will not be recognized as an outflow of resources (expense/expenditure) until then. The City recognizes deferred outflows of resources relating to its pension plans.

See Note 6 *Pension Plans*, for additional information.

## **8. Compensated Absences**

Compensated absences are absences for which employees will be paid, such as vacation leave or accrued compensatory time. Compensated absence liabilities are reported in the government-wide statements, as well as the proprietary funds.

Vacation leave, which may be accumulated up to 368 hours, is payable upon resignation, retirement or death.

Sick leave accrues at the rate of 8 hours per month and is only payable separation if the employee is eligible for retirement, as defined by the rules and regulations of the Washington State Public Employees Retirement System. In the event an employee qualifies for a sick leave cash-out, the employee is paid for 10% of his accrued but unused sick leave.

## **9. Other Accrued Liabilities**

These accounts consist of accrued wages and accrued employee benefits.

## **10. Long-Term Debt (See Note 10 - Long Term Debt)**

## **11. Unearned Revenues**

This account includes amounts recognized as receivables but not revenues in governmental funds. In these instances, the revenue recognition criteria have not been met as discussed in Note 1C. *Measurement Focus, Basis of Accounting, and Financial Statement Presentation*.

## **12. Deferred Inflows**

In addition to liabilities, the statement of financial position reports a separate section for the deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to future period(s) and will not be recognized as an inflow of resources (revenues) until that time. Unavailable revenues from prepayments are reported and from property taxes are reported as deferred inflows on the governmental fund statements. Only the unavailable revenues from non-property tax sources are included in the government-wide statements. This amount is deferred and recognized as an inflow of resources in the period when the amounts become available. The City also recognizes deferred inflow of resources relating to its pension plans.

See Note 6 *Pension Plans*, for additional information.

## **13. Fund Balance Classifications**

The components for reporting the City's fund balances are non-spendable, restricted, committed, assigned and unassigned.

- A. Non-spendable fund balance cannot be spent because it is either not in a spendable form (such as inventory or prepaids) or it is legally or contractually required to remain intact.
- B. Restricted fund balance includes amounts where constraints have been imposed by external parties, including creditors, grantors, and laws and regulations of other governments.
- C. For committed fund balance the government's highest level of decision-making authority is the City Council and a formal action by ordinance, resolution or motion is required to be taken to establish, modify or rescind a fund balance commitment.
- D. For assigned fund balance the City Council assigns amounts to a specific purpose (for example - budgeted use of fund balance) by adopting an ordinance to establish or amend the City's budget.
- E. Unassigned fund balance is any remaining amount after accounting for A-D above.

For the classification of fund balances the government considers restricted amounts to have been spent when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available. The City's assumed spending order of fund balances is committed balances first, followed by assigned balances, then finally unassigned amounts.

#### 14. Fund Balance Details

Fund balances in the governmental funds at December 31, 2017 were as follows:

Fund Balance Components	Fund	Details	Amount	Total
Nonspendable Fund Balance	General	Prepaid Expenses	\$ 162,956	
	General Capital	Prepaid Expenses	1,825	
	Roads Capital	Prepaid Expenses	9,768	
	Other Governmental	Prepaid Expenses	10,579	\$ 185,128
Restricted Fund Balance	General Capital	Restricted for 2013 GO Bond projects	251,740	
	Other Governmental	Restricted for police use only (seizure funds)	535,273	
	Other Governmental	Restricted for Unlimited Tax 2006 GO Bond payments	2,276	
	Other Governmental	Restricted for Transportation	2,205,453	
	Roads Capital	Restricted for Transportation	1,047,200	4,041,941
Committed Fund Balance	General	Cash flow reserve	3,000,000	
	General	Revenue stabilization	5,150,777	
	General	Budget contingency	838,338	
	General	Insurance reserves	255,000	
	General	Imprest cash	7,000	9,251,115
Assigned Fund Balance	General	Available fund balance	3,255,132	
	General Capital	Available fund balance	1,845,914	
	Other Governmental	Available fund balance	1,824,471	
	Roads Capital	Available fund balance	5,411,402	12,336,919
Unassigned Fund Balance	General	Remaining fund balance	6,531,215	6,531,215
<b>Total Fund Balances</b>			<b>\$ 32,346,318</b>	<b>\$ 32,346,318</b>

#### 15. Minimum Fund Balances

The City's Reserve and Fund Balance Policies as adopted by motion of the City Council include the following provisions.

##### General Fund Operating Reserves

The City shall maintain a General Fund Operating Reserve to provide adequate cash flow, budget contingencies, and insurance reserves. The General Fund Operating Reserves will be determined as follows:

1. **Cash Flow Reserve:** The City shall maintain a cash flow reserve within the General Fund in an amount equal to \$3,000,000. The City will review annually the required cash flow reserve level that is necessary to meet the City's cash flow needs. If it is determined that \$3,000,000 is not adequate, the Finance Director shall propose an amendment to these policies.

2. Revenue Stabilization Reserve: the City shall maintain a revenue stabilization reserve of \$5,150,777 equal to thirty percent (30%) of annual economically sensitive revenues within the City's operating budget to cover revenue shortfalls resulting from unexpected economic changes or recessionary periods.
3. Budget Contingency: The City shall maintain a budget contingency reserve within the General Fund equal to 2% of budgeted operating revenues.
4. Insurance Deductible Reserve: The City shall maintain an insurance reserve within the General Fund to be used for potential substantial events that cause damage to the City's fixed assets and/or infrastructure.

Equipment and Vehicle Replacement Reserves

The City will maintain fully funded reserves for the replacement of vehicles, computer equipment, and other equipment identified on the City's fixed asset listing. Contributions will be made through assessments to the using funds and maintained on a per asset basis.

City Street Fund Reserves

The City shall maintain an operating reserve within the City's Street Fund an amount equal to 20% of annually budgeted operating revenues.

Surface Water Utility Fund Reserves

The City shall maintain an operating reserve within the Surface Water Utility Fund of an amount equal to no less than 20% of budgeted operating revenues.

**Note 2 - DEPOSITS AND INVESTMENTS**

**A. DEPOSITS**

Cash on hand at December 31, 2017 was \$1,989,029. The carrying amount of the City's deposits was \$2,562,295 and the bank balance was \$3,542,568.

Custodial Credit Risk: Custodial credit risk for deposits is the risk that, in event of a failure of a depository financial institution, the city would not be able to recover deposits or will not be able to recover collateral securities that are in possession of an outside party. The city deposits and certificates of deposit are mostly 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).

**B. INVESTMENTS**

Interest Rate Risk: Interest rate risk is the risk the city may face should interest rate variances affect the fair value of investments. The city does not have a formal policy that addresses interest rate risk.

Investment Type	Fair Value	Maturities Less Than 1 Year	Maturities 1 to 3 Year
U.S. Agencies	\$ 25,036,282	\$ 10,168,424	\$ 14,867,858

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The city does not have a formal policy that addresses credit risk.

Investment Type	Fair Value	Aaa
U.S. Agencies	\$ 25,036,282	\$ 25,036,282

Rating agency: Moody's

**Investments in Local Government Investment Pool (LGIP)**

The city is a participant in the Local Government Investment Pool was authorized by Chapter 294, Laws of 1986, and is managed and operated by the Washington State Treasurer. The State Finance Committee is the administrator of the statute that created the pool and adopts rules. The State Treasurer is responsible for establishing the investment policy for the pool and reviews the policy annually and proposed changes are reviewed by the LGIP advisory Committee.

Investments in the LGIP, a qualified external investment pool, are reported at amortized cost which approximates fair value. The LGIP is an unrated external investment pool. The pool portfolio is invested in a manner that meets the maturity, quality, diversification and liquidity requirements set forth by the GASBS 79 for external investments pools that elect to measure, for financial reporting purposes, investments at amortized cost. The LGIP does not have any legally binding guarantees of share values. The LGIP does not impose liquidity fees or redemption gates on participant withdrawals.

The Office of the State Treasurer prepares a stand-alone LGIP financial report. A copy of the report is available from the Office of the State Treasurer, PO Box 40200, Olympia, Washington 98504-0200, online at <http://www.tre.wa.gov>.

As of December 31, 2017, the City’s investment in the LGIP had a total of \$10,393,303.

**Investments Measured at Fair Value**

The City measures and reports investments at fair value using the valuation input hierarchy established by generally accepted accounting principles, as follows:

- Level 1: Quoted prices in active markets for identical assets or liabilities;
- Level 2: These are quoted market prices for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other than quoted prices that are not observable;
- Level 3: Unobservable inputs for an asset or liability.

At December 31, 2017, the City had the following investments measured at fair value:

Fair Value Measurements Using				
Investments by Fair Value Level	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Federal Agency Obligations	\$25,036,282	\$ 25,036,282		
<b>Total Investments by Fair Value Level</b>	<b>\$25,036,282</b>	<b>\$ 25,036,282</b>		

**C. Summary of Deposit and Investment Balance**

Reconciliation of city’s deposits and investment balances as of December 31, 2017, is as follows:

	Government Wide	Fiduciary Funds
Cash on Hand	\$ 1,989,029	\$ 573,267
Deposits in State LGIP	10,393,303	
Non-Pooled Investments	25,036,282	
<b>Total Deposits and Investments</b>	<b>\$ 37,418,614</b>	<b>\$ 573,267</b>

**Note 3 - PROPERTY TAXES**

The county treasurer acts as an agent to collect property taxes levied in the county for all taxing authorities.

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 percent of market value
October 31	Second installment is due

Property taxes are recorded as receivable and revenue when levied. No allowance for uncollectible taxes is established because delinquent taxes are considered fully collectible. Prior year tax levies were recorded using the same principal, and delinquent taxes are evaluated annually.

The City may levy up to \$1.60 per \$1,000 of assessed valuation for general governmental services.

The City's regular levy for 2017 was \$1.39000 per \$1,000 on an assessed valuation of \$8,845,073,388 for a total regular levy of \$12,299,529.

The Washington State Constitution and Washington State law, RCW 84.55.010, limit the rate.

Special levies approved by the voters are not subject to the limitations listed above. In 2016, the City levied an additional \$0.19415 per \$1,000 for a total additional levy of \$1,700,012 towards repayment of the 2006 General Obligation bonds issued to purchase open space and construct park and trail improvements.

#### **Note 4 – CAPITAL ASSETS AND DEPRECIATION**

A. Capital asset activity for the year ended December 31, 2017 was as follows:

<b>Governmental Activities</b>	<b>Beginning Balance 01/01/17</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance 12/31/17</b>
Capital Assets, not being depreciated:				
Land	134,126,765	1,388,772	-	135,515,536
Construction in Progress	1,251,874	3,496,855	(605,162)	4,143,567
Total Capital Assets, not being depreciated:	135,378,639	4,885,626	(605,162)	139,659,103
Capital Assets, being depreciated:				
Buildings	41,598,910	249,740	-	41,848,650
Improvements other than buildings	22,792,292	5,500	-	22,797,792
Machinery and equipment	3,775,969	612,574	(234,308)	4,154,235
Infrastructure	264,472,130	2,215,402	-	266,687,532
Total Capital Assets, being depreciated:	332,639,302	3,083,216	(234,308)	335,488,209
Less Accumulated Depreciation for:				
Buildings	(14,101,474)	(1,310,827)	-	(15,412,300)
Improvements other than buildings	(7,223,294)	(974,976)	-	(8,198,270)
Machinery and equipment	(2,251,643)	(319,552)	234,308	(2,336,886)
Infrastructure	(101,938,001)	(6,795,880)	-	(108,733,880)
Total Accumulated Depreciation	(125,514,411)	(9,401,235)	234,308	(134,681,336)
Total Capital Assets, being depreciated, net	207,124,891	(6,318,019)	-	200,806,873
Governmental Activities Capital Assets, net	342,503,530	(1,432,392)	(605,162)	340,465,976

<b>Business-Type Activities</b>	<b>Beginning Balance 01/01/17</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance 12/31/17</b>
Capital Assets, not being depreciated:				
Land	23,632	-	-	23,632
Construction in Progress	1,337,543	379,280	-	1,716,822
Total Capital Assets, not being depreciated:	1,361,175	379,280	-	1,740,454
Capital Assets, being depreciated:				
Improvements other than buildings	399,929	-	-	399,929
Machinery and equipment	158,386	178,562	-	336,947
Infrastructure	21,622,891	24,670	-	21,647,561
Total Capital Assets, being depreciated:	22,181,206	203,232	-	22,384,438
Less Accumulated Depreciation for:				
Improvements other than buildings	(7,999)	(7,999)	-	(15,997)
Machinery and equipment	(120,471)	(11,058)	-	(131,529)
Infrastructure	(5,574,581)	(443,129)	-	(6,017,710)
Total Accumulated Depreciation	(5,703,051)	(462,186)	-	(6,165,236)
Total Capital Assets, being depreciated, net	16,478,155	(258,953)	-	16,219,202
Business-type activities Capital Assets, net	17,839,330	120,327	-	17,959,656

The City's infrastructure assets consist of roads, bridges, sidewalks, trails, storm drainage facilities, and signal lights. The City's infrastructure assets were valued and depreciated in accordance with GASB Statement No. 34.

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

<b>Governmental Activities:</b>	
General Government	1,140,270
Public Safety	60,691
Natural and Economic Environment	4,889
Transportation	6,741,653
Culture & Recreational	1,240,443
Capital assets held by the City's internal service funds are charged to the varies functions based on their usage of the assets	213,288
<b>Total Depreciation - Governmental Activities</b>	<b>9,401,235</b>

<b>Business-Type Activities</b>	
Surface Water Utility	462,186
<b>Total Depreciation - Business-Type Activities</b>	<b>462,186</b>

**Note 5 – OTHER RESTRICTED NET POSITION**

The government-wide statement of net position report \$4,041,941 of restricted net position, of which \$4,041,941 is restricted by enabling legislation.

**Note 6 - PENSION PLANS**

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

<b>Aggregate Pension Amounts – All Plans</b>	
Pension liabilities	\$(9,162,108)
Deferred outflows of resources	\$1,891,216
Deferred inflows of resources	\$(1,499,548)
Pension expense/expenditures	\$1,559,958

**State Sponsored Pension Plans**

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

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

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

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

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

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

**PERS Plan 1** provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member’s average final compensation (AFC) times the member’s years of service. The AFC is the average of the member’s 24 highest consecutive service months. Members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with at least 25 years of service, or at age 60 with at least five years of service. Members retiring from active status prior to the age of 65 may receive actuarially reduced benefits. Retirement benefits are actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, an optional cost-of-living adjustment (COLA), and a one-

time duty-related death benefit, if found eligible by the Department of Labor and Industries. PERS 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30, 1977.

Contributions

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

<b>PERS Plan 1</b>		
<b>Actual Contribution Rates</b>	<b>Employer</b>	<b>Employee</b>
January - June 2017:		
PERS Plan 1	6.23%	6.00%
PERS Plan 1 UAAL	4.77%	
Administrative Fee	0.18%	
<b>Total</b>	<b>11.18%</b>	<b>6.00%</b>
July - December 2017:		
PERS Plan 1	7.49%	6.00%
PERS Plan 1 UAAL	5.03%	
Administrative Fee	0.18%	
<b>Total</b>	<b>12.70%</b>	<b>6.00%</b>

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

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

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

after completing five years of eligible service. Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service if 12 months of that service are earned after age 44.

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

Contributions

The **PERS Plan 2/3** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2017 were as follows:

<b>PERS Plan 2/3</b>		
<b>Actual Contribution Rates</b>	<b>Employer 2/3</b>	<b>Employee 2</b>
January – June 2017:		
PERS Plan 2/3	6.23%	6.12%
PERS Plan 1 UAAL	4.77%	
Administrative Fee	0.18%	
Employee PERS Plan 3		varies
<b>Total</b>	<b>11.18%</b>	<b>6.12%</b>
July – December 2017:		
PERS Plan 2/3	7.49%	7.38%
PERS Plan 1 UAAL	5.03%	
Administrative Fee	0.18%	
Employee PERS Plan 3		Varies
<b>Total</b>	<b>12.70%</b>	<b>7.38%</b>

The City’s actual PERS plan contributions were \$615,665 to PERS Plan 1 and \$826,247 to PERS Plan 2/3 for the year ended December 31, 2017.

**Actuarial Assumptions**

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2017 with a valuation date of June 30, 2016. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary’s (OSA) *2007-2012 Experience Study* and the *2015 Economic Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2016 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30,

2017. Plan liabilities were rolled forward from June 30, 2016, to June 30, 2017, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

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

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

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

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

## **Discount Rate**

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

To determine that rate, an asset sufficiency test included an assumed 7.7 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. 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 employers, whose rates include a component for the PERS 1 plan liabilities). Based on these assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.5 percent was used to determine the total liability.

## **Long-Term Expected Rate of Return**

The long-term expected rate of return on the DRS pension plan investments of 7.5 percent was determined using a building-block-method. In selecting this assumption, the Office of the State Actuary (OSA) reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered capital market assumptions and simulated expected investment returns provided by the Washington State Investment Board (WSIB). The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns over various time horizons.

## **Estimated Rates of Return by Asset Class**

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan’s target asset allocation as of June 30, 2017, are summarized in the table below. The inflation component used to create the table is 2.2 percent and represents the WSIB’s most recent long-term estimate of broad economic inflation.

Asset Class	Target Allocation	% Long-Term Expected Real Rate of Return Arithmetic
Fixed Income	20%	1.70%
Tangible Assets	5%	4.90%
Real Estate	15%	5.80%
Global Equity	37%	6.30%
Private Equity	23%	9.30%
	<b>100%</b>	

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

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

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
PERS 1	\$5,850,008	\$4,802,209	\$3,894,590
PERS 2/3	11,746,026	4,359,900	(1,692)
<b>TOTAL</b>	<b>\$17,596,034</b>	<b>\$9,162,109</b>	<b>\$3,892,898</b>

**Pension Plan Fiduciary Net Position**

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

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

At June 30, 2017, the City reported a total pension liability of \$9,162,109 for its proportionate share of the net pension liabilities as follows:

	Liability (or Asset)
PERS 1	\$4,802,209
PERS 2/3	4,359,900
<b>TOTAL</b>	<b>\$9,162,109</b>

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

	<b>Proportionate Share 6/30/16</b>	<b>Proportionate Share 6/30/17</b>	<b>Change in Proportion</b>
PERS 1	0.091285%	0.101204%	0.009919%
PERS 2/3	0.112199%	0.125482%	0.013283%

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*.

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

### **Pension Expense**

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

	<b>Pension Expense</b>
PERS 1	\$805,975
PERS 2/3	753,984
<b>TOTAL</b>	<b>\$1,559,958</b>

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

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

<b>PERS1</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience		
Net difference between projected and actual investment earnings on pension plan investments		\$(179,205)
Changes of assumptions		
Changes in proportion and differences between contributions and proportionate share of contributions		
Contributions subsequent to the measurement date	\$321,465	
<b>TOTAL</b>	<b>\$321,465</b>	<b>\$(179,205)</b>

<b>PERS23</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$441,761	\$(143,390)
Net difference between projected and actual investment earnings on pension plan investments		(1,162,244)
Changes of assumptions	46,310	

Changes in proportion and differences between contributions and proportionate share of contributions	625,603	(14,709)
Contributions subsequent to the measurement date	456,076	
<b>TOTAL</b>	<b>\$1,569,750</b>	<b>\$(1,320,343)</b>

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

<b>Year ended December 31:</b>	<b>PERS1</b>	<b>PERS23</b>
2018	\$(121,131)	\$168,564
2019	38,243	109,977
2020	(8,880)	76,264
2021	(87,437)	77,603
2022		77,603
Thereafter		100,883
<b>TOTAL</b>	<b>\$(179,205)</b>	<b>\$610,894</b>

**Note 7 – OTHER POST-EMPLOYMENT BENEFIT (OPEB) PLANS**

**Post-Employment Medical Benefits**

The City is a Participating Employer in the Association of Washington Cities Employee Benefit Trust (“Trust”), a cost-sharing multiple-employer welfare benefit plan administered by the Association of Washington Cities. The Trust provides medical benefits to certain eligible retired employees of the Participating Employers and their eligible family members. Under Article VII of the Trust document, the Trustees have the authority and power to amend the amount and the nature of the medical and other benefits provided by the Trust. The Trust issues a publicly available financial report that includes financial statements and required supplementary information for the Trust. That report, along with a copy of the Trust document, may be obtained by writing to the Trust at 1076 Franklin Street SE, Olympia, WA 98501-1346 or by calling (800) 562-8981.

The Trust provides that contribution requirements of participating employers and participating employees, retirees, and other beneficiaries, if any, are established and may be amended by the Board of Trustees of the Trust. Retirees of the City receiving medical benefits from the Trust contributed the following monthly amounts during 2017:

<b>Health First-1000</b>	<b>Plan R-1500</b>	<b>Kaiser Permanente</b>
\$734.37 for non-Medicare enrolled retiree coverage	\$1,304.75 for non-Medicare enrolled retiree coverage	\$1,232.79 for non-Medicare enrolled retiree coverage
\$740.78 for non-Medicare enrolled spouse coverage	\$1,310.03 for non-Medicare enrolled spouse coverage	\$1,196.86 for non-Medicare enrolled spouse coverage

<b>Health First-2500</b>	<b>Regence Medicare Advantage Plan</b>	<b>Kaiser Permanente Clear Care Medicare Advantage Plan</b>
\$641.21 for non-Medicare enrolled retiree coverage	\$395.23 for Medicare enrolled retiree coverage	\$453.53 for Medicare enrolled retiree coverage
\$645.87 for non-Medicare enrolled spouse coverage	\$395.23 for Medicare enrolled spouse coverage	\$453.53 for Medicare enrolled spouse coverage

The City is not contractually required to contribute an assessed rate each year by the Trust for its retirees. The City's enrolled retirees pay 100% of the premiums.

**Note 8 – CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS**

**A. CONSTRUCTION COMMITMENTS**

As of December 31, 2017, the major construction project remains is the Police Station. This contract was awarded in December of 2016. At year-end, the City's commitments with its contractor were as follows:

Project	Spent to Date	Remaining Commitment
Police Station	\$ 5,898,260	\$ 2,257,370

This project has primarily been financed by federal Criminal Forfeiture Fund and State Drug Enforcement Fund.

**B. OTHER SIGNIFICANT COMMITMENTS**

The City requires architectural and engineering services to plan and manage its current and future construction projects. Below is a listing of the City's significant commitments for professional services for active and future projects:

Project	Spent to Date	Remaining Commitment
145th & I5 Interchange	\$ 179,916	\$ 1,144,004
145th St Corridor Improvements	\$ 249,378	\$ 1,563,415
25 <sup>th</sup> Ave NE Flood Reduction Improvements	460,410	859,109

**Note 9 – LEASES**

During 2017, the City leased parking space from Walgreen's for City vehicles for a total cost of \$7,392. This operating lease allows the City or the lessor to cancel the lease. The City also entered into a five year lease with the Washington State Department of Social and Health Services to use approximately 2 acres of vacant land at the southeast section of the Fircrest Campus as an off leash dog area and associated parking. The annual cost of this lease is \$2,400.

The City purchased the Highland Park Center in 2006 to use for future City Hall expansion and assumed existing tenant leases. One tenant continues to occupy the remaining portion of the Highland Park Center with a least through December 31, 2017. A second tenant vacated in 2016 and there is no plan to lease the vacated space. The Highland Park Center has a book value of \$110,638 and is being depreciated \$7,942 a year.

**Note 10 - LONG-TERM DEBT**

General obligation bonds were issued in 2006 and 2009 for general government activities only and are being repaid from a voter-approved "excess" property tax levy, real estate excise tax and lease savings. All principal and interest payments on these general obligation debts are recorded as expenditures in the City's debt service funds. The City issued unlimited tax general obligation bonds in 2006 to finance the acquisition of open space and for the construction of improvements to parks and recreation facilities. The City issued limited tax general obligation bonds of which a portion were direct pay taxable Build America Bonds in 2009 to finance the City's administration building.

The City issued limited tax general obligation bonds in 2013 to finance the purchase of a maintenance facility. These bonds will be repaid from governmental revenues, facility rental payments from the surface water utility fund, and property tax levies if other revenues are insufficient to repay the debt.

The City issued surface water utility revenue bond in 2016 for various surface water utility projects; the bonds will be repaid over 15 years and have fixed interest rate of 2.23%. These bonds will be repaid from surface water utility fees.

General obligation bonds currently outstanding are as follows:

Purpose	Maturity Range	Interest Rate	Original Amount	Outstanding 12/31/2017
Unlimited Tax General Obligation Bonds, 2016 Refunding- Parks and Open Space	2016 - 2021	1.02% - 1.72%	\$ 7,595,000	\$ 5,994,000
Limited Tax General Obligation Bonds, 2009 Series B (Taxable Build America Bonds-Direct Pay)- City Hall	2019 - 2039	4.69% - 6.40%	18,340,000	18,340,000
Limited Tax General Obligation Bonds, 2013 - Maintenance Facility	2014 - 2033	3.75%	3,565,000	3,070,000
Surface Water Utility Revenue Bonds, 2016 - Various Surface Water Utility Projects	2016 - 2031	2.23%	2,000,000	1,886,372
Total			\$ 31,500,000	\$ 29,290,372

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

Year Ending December 31, 2017	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2018	\$ 2,309,000	\$ 1,304,967	\$ 116,285	\$ 42,066
2019	2,345,000	1,280,704	118,879	39,473
2020	2,392,000	1,200,054	121,530	36,822
2021	1,883,000	1,168,548	124,240	34,112
2022	795,000	1,082,685	127,010	31,341
2023 - 2027	4,440,000	5,044,700	678,820	33,797
2028 - 2032	5,375,000	3,972,018	599,608	112,937
2033 - 2039	7,865,000	3,119,690	-	-
Total	\$ 27,404,000	\$ 18,173,365	\$ 1,886,372	\$ 330,548

During calendar year 2001, the City entered into two long-term loan agreements with the Washington State Department of Community, Trade and Economic Development. The loans are to provide financing for two individual surface water capital improvement projects in the Surface Water Utility Fund, are administered through the Washington State Public Works Board, and are commonly referred to as Public Works Trust Fund Loans. These loans will be repaid from surface water utility fees. Current loans outstanding at December 31, 2017 consisted of the following:

Issue Name	Amount Borrowed	Annual Installments	Final Maturity	Effective Rate	Outstanding 12/31/17
State of WA Public Works Trust Fund Loans:					
Third Avenue Drainage Improvements	\$ 1,959,500	\$ 114,213	2021	0.50%	\$ 456,853
Ronald Bog Sub Basin Improvements	3,852,725	212,262	2021	0.50%	849,045
Total	\$ 5,812,225	\$ 326,475			\$ 1,305,898

The annual debt service requirements to maturity for the Public Works Trust Fund Loan debt are as follows:

Year Ending December 31, 2017	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2018			326,474	6,530
2019			326,475	4,897
2020			326,475	3,265
2021			326,474	1,632
Total	\$ -	\$ -	\$ 1,305,898	\$ 16,324

#### Note 11 – CHANGES IN LONG-TERM LIABILITIES

Compensated absences and net pension liabilities are also considered long-term liability and represent unpaid vacation, compensated time, eligible sick leave liability and the pension liability of the City. For the governmental activities,

compensated absences and net pension liabilities are generally liquidated in the General Fund, Street Fund, General Capital Fund and Roads Capital Fund.

Other Long Term Liabilities	Beginning Balance 01/01/17	Additions	Reductions	Ending Balance 12/31/17
Compensated Absences				
Governmental Activity	\$ 945,119	\$ 1,257,861	\$ 1,161,855	\$ 1,041,124
Business-Type Activity	47,167	211,662	101,309	157,520
	992,286	1,469,523	1,263,165	1,198,645
Net Pension Liability				
Governmental Activity	9,707,440		1,367,087	8,340,353
Business-Type Activity	844,125		22,370	821,755
	10,551,565	-	1,389,457	9,162,108
Total	\$ 11,543,851	\$ 1,469,523	\$ 2,652,622	\$ 10,360,753

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

	Beginning Balance 01/01/17	Additions	Reductions	Ending Balance 12/31/17	Due Within One Year
<b>Governmental Activities:</b>					
General Obligation Bonds	\$ 29,680,000	\$ -	\$ 2,276,000	\$ 27,404,000	\$ 2,309,000
Compensated Absences	945,119	1,257,861	1,161,855	1,041,124	-
Net Pension Liability	9,707,440	-	1,367,087	8,340,353	-
Governmental Activity long-term liabilities	40,332,559	1,257,861	4,804,942	36,785,477	2,309,000
<b>Business-Type Activities:</b>					
Surface Water Utility Bonds	2,000,000	-	113,628	1,886,372	116,285
Public Works Trust Fund Loans	1,632,373	-	326,475	1,305,898	326,475
Compensated Absences	47,167	211,662	101,309	157,520	-
Net Pension Liability	844,125	-	22,370	821,755	-
Business-Type Activity long-term liabilities	\$ 4,523,665	\$ 211,662	\$ 563,782	\$ 4,171,545	\$ 442,760

**Note 12- INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS**

**A. Interfund Receivables/Payables**

In 2014, the City Council approved an interfund loan from the Surface Water Maintenance Fund to the General Fund. The purpose of the loan was to have the Surface Maintenance Fund pay debt service on the North Maintenance Facility debt on behalf of the General Fund for several years. The maximum amount authorized is \$600,000. The loan is scheduled to mature on December 31, 2018.

		Due From		
Due To	General Fund			Total
	Surface Water Management Fund	\$ 565,604	\$ 565,604	
	Total	\$ 565,604	\$ 565,604	

**B. Interfund Transfers**

The City's interfund transfers are primarily to support the operations of other funds and are recorded as "Operating Transfers" and classified with "Other Financing Sources or Uses." The principal purposes for interfund transfers include interfund subsidies and transfers into debt service and capital project funds.

Interfund transfers at December 31, 2017 were as follows:

Transfer To	Transfer From						Total
	General Fund	General Capital	Roads Capital	Surface Water Utility	Other Governmental		
General Fund		\$ 45,782	\$ 64,736	\$ 641,952	\$ 277,818	\$ 1,030,288	
General Capital	\$ 1,962,796				1,422,137	3,384,933	
Roads Capital	339,484					339,484	
Other Governmental	1,243,690	695,094	7,227			1,946,010	
Internal Service	28,930			18,742	52,053	99,725	
Total	\$ 3,574,900	\$ 740,876	\$ 71,963	\$ 660,694	\$ 1,752,008	\$ 6,800,440	

**Note 13 - RISK MANAGEMENT**

**A. Property and Liability**

The City of Shoreline is a member of the Washington Cities Insurance Authority (WCIA). Utilizing Chapter 48.62 RCW (self-insurance regulation) and Chapter 39.34 RCW (Interlocal Cooperation Act), nine cities originally formed WCIA on January 1, 1981. WCIA was created for the purpose of providing a pooling mechanism for jointly purchasing insurance, jointly self-insuring, and / or jointly contracting for risk management services. WCIA has a total of 161 members.

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

Liability coverage is written on an occurrence basis, without deductibles. Coverage includes general, automobile, police, errors or omissions, stop gap, employment practices and employee benefits liability. Limits are \$4 million per occurrence in the self-insured layer, and \$21 million in limits above the self-insured layer is provided by reinsurance. Total limits are \$25 million per occurrence subject to aggregates and sublimits. The Board of Directors determines the limits and terms of coverage annually.

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

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

WCIA is fully funded by its members, who make annual assessments on a prospectively rated basis, as determined by an outside, independent actuary. The assessment covers loss, loss adjustment, reinsurance and other 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.

For each of the past three fiscal years, the city did not have any settlements that exceeded insurance coverage.

## **B. Health and Welfare**

The City of Shoreline 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, 2017, 261 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: Kaiser Foundation Health Plan of Washington, Kaiser Foundation Health Plan of Washington 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 2017, 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 Kaiser ISL at \$1 million with Companion Life through ASG Risk Management. 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.

### C. Industrial Insurance

The City of Shoreline participates in the State of Washington's Employment Security Department's Industrial Insurance program. Payments are made quarterly.

### D. Unemployment

The unemployment compensation insurance program is a federal-state system designed to provide partial wage loss compensation to workers during periods of temporary unemployment.

The City elected the reimbursement (self-insurance) method for claim payment and maintains the Unemployment internal service fund. The City reimburses Washington State's Employment Security Department on a quarterly basis for claims approved and paid.

Changes in claims liabilities for the two past years are as follows:

Year	Beginning Claim Liability	Additions	Reductions	Ending Claim Liability
2016	\$0	\$2,230	\$2,126	\$173
2017	\$173	\$3,896	\$4,021	\$48

## Note 14 – CONTINGENCIES AND LITIGATION

### Contingent Liabilities

The City has recorded in its financial statements all material liabilities. In the opinion of management, the City's participation in and coverage provided by the WCIA pool and insurance reserves are adequate to pay all known or pending claims.

The City of Shoreline has an interlocal agreement with King County for the provision of surface water billing services and collection of revenues. King County includes prior debt service for pre-incorporation and pre-annexations (1993, 1996 and 1999 Bond Issues) on the surface water management billing to City of Shoreline property owners, which is then remitted to the City. The County then bills the City for its share of the debt requirement based on the prior year surface water management billings. The 1993 bond issue was retired in the year 2002. The 1996 bond was retired in the year 2016. The 1999 bond issue will be retired in the year 2019.

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

### Litigation

There were 13 cases pending at the end of 2017 and none of them implicated financial obligations.

## Note 15 – SPECIAL ITEMS

Special items are significant items subject to management's control that meet one but not both of the following criteria:

- a. Unusual nature - the underlying event or transaction should possess a high degree of abnormality and be of a type clearly unrelated to, or only incidentally related to, the ordinary and typical activities of the entity.
- b. Infrequency of occurrence - the underlying event or transaction should be of a type that would not reasonably be expected to recur in the foreseeable future.

The following items have been identified as special items:

Entity-wide reporting:

The City of Shoreline received a land parcel from King County in mitigation for the impacts to the City residents, businesses, and the environment caused by the Brightwater Regional Treatment Plant Project. The parcel's value was assessed at \$956,400 by the King County Assessor's Office, and was used as its fair value. This land acquisition is being reported as a special item at the entity-wide reporting level due its infrequency of occurrence.

Fund Level Reporting:

During 2017, in anticipation of a deferred governmental combination, the Ronald Wastewater District (District) transferred its personal assets, including vehicles to the City of Shoreline. These assets were recorded, at the District's net book value of \$178,562, and are being reported as a special item at the fund level due to the unusual nature of the underlying transaction.

**NOTE 16 – TAX ABATEMENT**

GASBS 77: Tax Abatement Disclosures requires that the City is disclose any tax abatements affecting its revenues, whether issued by the City or another government. Below is a table of the required disclosures:

Tax Abatement Programs For the Year Ended December 31, 2017		
	Primary Government City of Shoreline	Other Government State of Washington
	Multi-Unit Urban Housing Exemption	Nonprofit
1) Purpose of program	a) Encourage increased multifamily affordable and market-rate residential opportunities within targeted areas.	Encourage increased multifamily affordable housing for very low income families.
	b) Stimulate new construction or rehabilitation of existing vacant and underutilized buildings for revitalization of designated areas.	
	c) Assist in directing future population growth to targeted areas, thereby reducing development pressure on single-family residential neighborhoods.	
	d) Achieve developmental densities that stimulate a healthy economic base and are more conducive to transit use in the designated targeted area.	
2) Tax being abated	Property Tax	Property Tax
3) Authority under which abatement agreements are entered into	SMC 3.27 and RCW chapter 84.14: in addition each owner of a property must enter a legally binding agreement with the City of Shoreline, which is then recorded with King County. The agreement details the affordability requirements and other stipulations for compliance with the program.	RCW chapter 84.36.560: each owner must submit an application to the Washington State Department of Revenue (DOR). If approved, the DOR issues a Property Tax Exemption Determination letter.
4) Criteria to be eligible to receive abatement	The program is meant to incentivize the creation of multi-family housing	Nonprofit entities which provide low income housing qualify if:

	by providing a property tax exemption on new or rehabilitated multi-family buildings in exchange for setting aside a minimum of 20% of the homes as income- and rent-restricted. The program is only available to developers who build or rehabilitate four or more units. Additional requirements apply to rehabilitated properties which are already occupied.	<p>a) The nonprofit entity benefits from the exemption;</p> <p>b) At least 75% of the occupied dwelling units in the rental housing or lots in a mobile park are occupied by a very low-income household.</p> <p>c) The rental housing or lots in a mobile home park were insured, financed, or assisted in whole or in part through one or more of the following sources:</p> <p>(i) A federal or state housing program administered by the department of community, trade, and economic development;</p> <p>(ii) A federal housing program administered by a city or county government;</p> <p>(iii) An affordable housing levy authorized under RCW 84.52.105; or</p> <p>(iv) The surcharges authorized by RCW 36.22.178 and 36.22.179 and any of the surcharges authorized in chapter 43.185C RCW.</p>
5) How recipient's taxes are reduced	Only the ad valorem value of housing-related improvements qualifying under the terms of Chapter 3.27, are exempt. Land value continues to be taxed.	The ad valorem value of land, residential improvements and personal property exclusively used to provide rental housing are exempt.
6) How amount of abatement is determined	The entire appraised value of the participating property's residential improvements is exempt.	The entire appraised value of the participating property's land, residential improvements and personal are exempt.
7) Provisions for recapturing abated taxes	If a property fails to comply with the affordability restriction, the City Manager has the authority to cancel a tax exemption, and the Assessor has the authority to impose fines, collect back taxes, and charge interest on back taxes.	Upon cessation of a use under which an exemption has been granted pursuant to RCW 84.36.560, with certain exceptions, the county treasurer shall collect all taxes which would have been paid had the property not been exempt during the three years preceding, or the life of such exemption, if such be less, together with the interest at the same rate and computed in the same way as that upon delinquent property taxes.
8) Types of commitments made by the City other than to reduce taxes	N/A	N/A
9) Gross amount of City's revenues being reduced	\$78,363	\$8,683

**NOTE 17 – RELATED PARTY TRANSACTIONS**

On October 22, 2002, the Ronald Wastewater District (District) and the City entered into an agreement in which the City would assume control of the District on October 23, 2017. In consideration of the Interlocal Operating Agreement Fee, the City consented to not exercise its statutory authority granted under RCW 35.13A which would have allowed the City to assume jurisdiction over “the District or any District

responsibilities, property, facilities or equipment within the city's corporate limits, including future annexed areas." Due to litigation issues, this government combination has been deferred.

Instead, effective October 23, 2017, the District contracted with the City to take over the day-to-day operations of the District; the District's regular employees became City employees; and the District transferred all of its personal assets to the City. The Wastewater Enterprise Fund, was established to record and report the activity of the District's operations. The City invoiced the District for \$441,904 in advance funds to cover the operating costs anticipated to be incurred from October 23, 2017 through December 31, 2017, which the District paid in 2017. It is anticipated that the City will invoice the District each quarter for budgeted operating costs, taking into account funds collected by the City on behalf of the District through walk in wastewater customers who pay their wastewater invoices to the City. A reconciliation of actual costs to advanced funds will take place at least annually. A reconciliation was performed as of December 31<sup>st</sup>, and it was determined that the District is owed \$124,120 by the City. The payable is not material and was not booked.

The District's buildings and infrastructure remain the property of the District, and its Commissioners retain control over the direction of the District. As such, this does not qualify as a government combination. It is the Management's opinion that the District only qualifies as a related party. In consequence, the following related party transaction information is provided:

In anticipation of the government combination, the City incurred transition expenditures totaling \$186,797 which the District's Commission declined to pay. In addition, although District employees cashed out much of their leave immediately prior to transferring to the City's employ, some leave was retained, and \$103,912 in accrued leave liability was recognized as a liability to the City upon transfer. In consequence of these two items, a total of \$290,709 have been recorded as a receivable from the District, which has been offset by deferred inflows, in the General Fund.

In 2017, the City reported \$886,000 in franchise fee revenues from the District, in the General Fund. The franchise fee represents a full year of revenue. Revenues reported in the Wastewater Utility Fund, including Ronald service agreement fees and special item revenues, totaled \$654,822. Reported expenses totaled \$619,127.

Footnote 15 Special Items provides information on personal assets acquired from the District.

#### **NOTE 18 – SUBSEQUENT EVENT**

The Department of Retirement Services (DRS) has valuations made of its various pension systems as of June 30<sup>th</sup>. District employees transferred to City employment following the valuation date. In consequence, these valuations did not take into account the employee transfer to the City. In 2018, a true up will occur with the PERS valuations.

#### **Note 19 – POLLUTION REMEDIATION**

During 2016, the City purchased property for the purpose of housing its Police function at City Hall. Prior to the property purchase, the City was aware that the soil was contaminated and would be need to be remediated prior to proceeding with the project. Management anticipated that remediation costs could go as high as \$500,000 although engineering estimates were lower.

In 2017, \$432,372 in outlays were expended in direct soil remediation efforts. Prior to that, remediation outlays were insignificant. Remediation efforts concluded in 2017. The City anticipates full reimbursement from Chevron Environmental Management Company and Grease Monkey for its soil remediation efforts.

In accordance with GASBS 49: Accounting and Financial Reporting for Pollution Remediation Obligations, the direct soil remediation outlays were capitalized as land.

REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Plans



City of Shoreline  
 Schedule of Proportionate Share of the Net Pension Liability  
 PERS1  
 As of June 30  
 Last 10 Fiscal Years<sup>1</sup>

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Employer's proportion of the net pension liability (asset) %	0.101204%	0.091285%	0.092547%
Employer's proportionate share of the net pension liability \$	4,802,209	4,902,434	4,841,069
Covered payroll <sup>2,4</sup> \$	12,483,917	11,469,839	10,894,759
Employer's proportionate share of the net pension liability as a percentage of covered payroll %	38.47%	42.74%	44.43%
Plan fiduciary net position as a percentage of the total pension liability %	61.24%	57.03%	59.10%

City of Shoreline  
 Schedule of Employer Contributions  
 PERS1  
 As of December 31  
 Last 10 Fiscal Years<sup>1</sup>

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily or contractually required contributions \$	615,665	558,303	490,337
Contributions in relation to the statutorily or contractually required contributions <sup>3</sup> \$	615,665	558,303	490,337
Contribution deficiency (excess) \$	0	0	0
Covered payroll <sup>2,5</sup> \$	12,500,392	11,469,839	10,894,759
Contributions as a percentage of covered payroll %	4.93%	4.87%	4.50%

**Notes to Schedule:**

<sup>1</sup>These schedules will be built prospectively until they contain 10 years of data.

<sup>2</sup>"Covered-employee payroll" includes employee compensation, as defined by statute, that the City reported to the Washington Department of Retirement Services (DRS). Employer-reported employee compensation is used to calculate retirement contributions due the the retirement system. The total salary of wages paid to employees eligible for retirement-system coverage may not be reportable to the DRS.

<sup>3</sup>The annual required contribution changes each year with the experience of the plans. Factors influencing the experience include changes in funding methods, assumptions, plan provisions, and economic and demographic changes and losses.

<sup>4</sup>PERS23 covered payroll instead of PERS1 covered payroll was reported in error for 2015 and 2016, on the 2016 RSI.

<sup>5</sup>PERS23 covered payroll instead of PERS1 covered payroll was reported in error for 2016.

REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Plans



City of Shoreline  
 Schedule of Proportionate Share of the Net Pension Liability  
 PERS2/3  
 As of June 30  
 Last 10 Fiscal Years<sup>1</sup>

	<u>2017</u>	<u>2016</u>	<u>2015</u>
<u>Employer's proportion of the net pension liability (asset)</u> %	0.125482%	0.112199%	0.112877%
<u>Employer's proportionate share of the net pension liability</u> \$	4,359,900	5,649,131	4,033,160
<u>Covered payroll<sup>2</sup></u> \$	12,284,105	11,280,722	10,668,684
<u>Employer's proportionate share of the net pension liability as a percentage of covered payroll</u> %	35.49%	50.08%	37.80%
<u>Plan fiduciary net position as a percentage of the total pension liability</u> %	90.97%	85.82%	89.20%

City of Shoreline  
 Schedule of Employer Contributions  
 PERS2/3  
 As of December 31  
 Last 10 Fiscal Years<sup>1</sup>

	<u>2017</u>	<u>2016</u>	<u>2015</u>
<u>Statutorily or contractually required contributions</u> \$	826,247	701,870	600,989
<u>Contributions in relation to the statutorily or contractually required contributions<sup>3</sup></u> \$	826,247	701,870	600,989
<u>Contribution deficiency (excess)</u> \$	0	0	0
<u>Covered payroll<sup>2</sup></u> \$	12,302,561	11,280,722	10,668,684
<u>Contributions as a percentage of covered payroll</u> %	6.72%	6.22%	5.63%

**Notes to the Schedules:**

<sup>1</sup>These schedules will be built prospectively until they contain 10 years of data.

<sup>2</sup>"Covered-employee payroll" includes employee compensation, as defined by statute, that the City reported to the Washington Department of Retirement Services (DRS). Employer-reported employee compensation is used to calculate retirement contributions due the the retirement system. The total salary of wages paid to employees eligible for retirement-system coverage may not be reportable to the DRS.

<sup>3</sup>The annual required contribution changes each year with the experience of the plans. Factors influencing the experience include changes in funding methods, assumptions, plan provisions, and economic and demographic changes and losses.

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

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Passed through to Subrecipients	Note
				From Pass- Through Awards	From Direct Awards	Total		
<b>CDBG - Entitlement Grants Cluster</b>								
Office Of Community Planning And Development, Department Of Housing And Urban Development	Community Development Block Grants/Entitlement Grants	14.218	B-17-JC- 530001, 5EG98	-	102,974	102,974	102,974	
Office Of Community Planning And Development, Department Of Housing And Urban Development	Community Development Block Grants/Entitlement Grants	14.218	B-16-UC- 530001, 5EG98	-	4,181	4,181	4,181	
<b>Total CDBG - Entitlement Grants Cluster:</b>				-	<b>107,155</b>	<b>107,155</b>	<b>107,155</b>	
Bureau Of Justice Assistance, Department Of Justice	Edward Byrne Memorial Competitive Grant Program	16.751	2015-WY-BX- 0005	-	119,885	119,885	-	
<b>Highway Planning and Construction Cluster</b>								
Federal Highway Administration (fhwa), Department Of Transportation	Highway Planning and Construction	20.205	LA 7292/STPUL -CM-HSIP-009 (115)	-	17,806	17,806	17,806	
Federal Highway Administration (fhwa), Department Of Transportation	Highway Planning and Construction	20.205	LA 8581/STPUL -2141(001)	-	651,403	651,403	651,403	
Federal Highway Administration (fhwa), Department Of Transportation	Highway Planning and Construction	20.205	LA 8608/STPUL -1611(002)	-	286,018	286,018	286,018	
Federal Highway Administration (fhwa), Department Of Transportation	Highway Planning and Construction	20.205	LA 8685/STPUL -1169(019)	-	497,626	497,626	497,626	
Federal Highway Administration (fhwa), Department Of Transportation	Highway Planning and Construction	20.205	LA 8856/SRTS- 1169(020)	-	380,678	380,678	380,678	

*The accompanying notes are an integral part of this schedule.*

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

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Passed through to Subrecipients	Note
				From Pass- Through Awards	From Direct Awards	Total		
Federal Highway Administration (fha), Department Of Transportation	Highway Planning and Construction	20.205	LA 8901/STPUL -0523(010)	-	215,712	215,712	215,712	
Federal Highway Administration (fha), Department Of Transportation	Highway Planning and Construction	20.205	LA 8990/HSIP- 0005(450)	-	9,429	9,429	9,429	
Federal Highway Administration (fha), Department Of Transportation	Highway Planning and Construction	20.205	LA 8981/HSIP- 2141(002)	-	45,533	45,533	45,533	
Federal Highway Administration (fha), Department Of Transportation	Highway Planning and Construction	20.205	LA 9075/STPUL -0523(011)	-	153,017	153,017	153,017	
<b>Total Highway Planning and Construction Cluster:</b>				-	<b>2,257,222</b>	<b>2,257,222</b>	<b>2,257,222</b>	
<b>Federal Transit Cluster</b>								
Federal Transit Administration (fta), Department Of Transportation	Federal Transit Capital Investment Grants	20.500	WA-04-0080	-	6,764	6,764	6,764	
<b>Total Federal Transit Cluster:</b>				-	<b>6,764</b>	<b>6,764</b>	<b>6,764</b>	
<b>Highway Safety Cluster</b>								
National Highway Traffic Safety Administration (nhtsa), Department Of Transportation	State and Community Highway Safety	20.600	FFY2017 HVE Emphasis Patrols	-	4,815	4,815	4,815	
National Highway Traffic Safety Administration (nhtsa), Department Of Transportation	State and Community Highway Safety	20.600	2018-HVE-2353 -Shoreline PD Emphasis Patrols	-	1,228	1,228	1,228	
National Highway Traffic Safety Administration (nhtsa), Department Of Transportation	State and Community Highway Safety	20.600	Kent PD Emphasis Patrols	-	2,473	2,473	2,473	

*The accompanying notes are an integral part of this schedule.*

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

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Passed through to Subrecipients	Note
				From Pass- Through Awards	From Direct Awards	Total		
National Highway Traffic Safety Administration (nhtsa), Department Of Transportation	State and Community Highway Safety	20.600	2016-2017 WSPC Traffic Safety Emergency Funds	-	746	746	746	
			<b>Total CFDA 20.600:</b>	-	<b>9,262</b>	<b>9,262</b>	<b>9,262</b>	
National Highway Traffic Safety Administration (nhtsa), Department Of Transportation	National Priority Safety Programs	20.616	FFY2017 HVE Emphasis Patrols	-	6,987	6,987	6,987	
			<b>Total Highway Safety Cluster:</b>	-	<b>16,249</b>	<b>16,249</b>	<b>16,249</b>	
Federal Emergency Management Agency (fema), Department Of Homeland Security	Emergency Management Performance Grants	97.042	E17-154	-	19,991	19,991	19,991	
Federal Emergency Management Agency (fema), Department Of Homeland Security	Emergency Management Performance Grants	97.042	EMS-2017-EP- 00004-S01/E18 -107	-	13,909	13,909	13,909	
			<b>Total CFDA 97.042:</b>	-	<b>33,899</b>	<b>33,899</b>	<b>33,899</b>	
			<b>Total Federal Awards Expended:</b>	-	<b>2,541,173</b>	<b>2,541,173</b>	<b>2,421,288</b>	

The accompanying notes are an integral part of this schedule.

## CITY OF SHORELINE, WASHINGTON

### NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS For the Year Ended December 31, 2017

#### NOTE 1 - BASIS OF ACCOUNTING

This schedule is prepared on the same basis of accounting as the City of Shoreline's financial statements. The City of Shoreline uses the Generally Accepted Accounting Principles (GAAP) basis of accounting.

#### NOTE 2 - PROGRAM COSTS

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

#### NOTE 3 – INDIRECT COST RATE

The City has elected the 10 percent *de minimis* indirect cost rate allowed under the Uniform Guidance. However, this indirect cost rate was not applied to any federal grants during 2017.

## ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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

<b>Contact information for the State Auditor's Office</b>	
<b>Public Records requests</b>	<a href="mailto:PublicRecords@sao.wa.gov">PublicRecords@sao.wa.gov</a>
<b>Main telephone</b>	(360) 902-0370
<b>Toll-free Citizen Hotline</b>	(866) 902-3900
<b>Website</b>	<a href="http://www.sao.wa.gov">www.sao.wa.gov</a>