



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report
City of Anacortes

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

Published November 5, 2018

Report No. 1022520





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

November 5, 2018

Mayor and City Council
City of Anacortes
Anacortes, Washington

Report on Financial Statements

Please find attached our report on the City of Anacortes financial statements.

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 AUDIT FINDINGS AND RESPONSES

**City of Anacortes
Skagit County
January 1, 2017 through December 31, 2017**

2017-001 The City's accounting and financial statement preparation controls were not adequate to ensure accurate reporting for tax receivable activity and intergovernmental revenue.

Background

City councilmembers, state and federal agencies, and the public rely on the information included in the financial statements and reports to make decisions. City management is responsible for designing and following internal controls that provide reasonable assurance regarding the reliability of financial reporting.

Our audit identified significant deficiencies in internal controls over financial reporting that affected the City's ability to produce financial statements in accordance with accounting standards.

Governmental Auditing Standards, prescribed by the Comptroller General of the United States, requires the auditor to communicate significant deficiencies, defined in Applicable Laws and Regulations section below, as a finding.

Description of Condition

As defined in GASB Statement No. 33 – *Accounting and Financial Reporting for Nonexchange Transactions*, local governments earn derived tax revenues, such as sales taxes, when the underlying sales transaction takes place. The State Treasurer collects sales taxes and remits monthly to local governments about two months after the underlying sales transactions.

The City did not properly accrue and record tax revenue or the related receivables in the governmental funds for amounts received in January and February 2018 that were for November and December 2017 taxes. While Sales and Use Tax represents the largest portion, other taxes were also affected.

The City also did not properly accrue and record grant and other intergovernmental revenue in the fiscal period earned.

Cause of Condition

The City reported sales and other taxes, grants and other intergovernmental revenues when funds were received by the City without adequate consideration of when they were earned.

Effect of Condition

The City did not report a receivable for taxes and other items that were measurable and available but not yet collected as of year-end. This included a \$1,006,689 receivable in the General Fund, \$70,331 in the Ambulance Fund, \$55,627 in the Street Fund and \$138,379 collectively in remaining funds. The net effect for the Governmental Activities was an understatement of \$1,271,026.

The City under-reported related tax revenue by \$30,459 in the General Fund and \$16,747 in the Ambulance Fund and overstated \$11,556 in the Street Fund and \$10,144 collectively in remaining funds. The net effect for the Governmental Activities was a \$25,506 understatement.

In addition, the City over-reported Intergovernmental Revenue by \$330,541 in the General Fund and \$23,034 collectively in remaining funds because of inaccurate accrual of grants and other revenues.

The City corrected all errors noted.

Recommendation

We recommend the City adequately consider when revenues are earned to properly report revenues and related receivables.

City's Response

The State of Washington collects sales tax on taxable sales within the City limits; the revenue distribution to the City is typically two months after the transaction takes place. It is not known at the time of revenue receipt what the amount will be as it is effectively a shared revenue, therefore it is impractical and not a standard accounting practice to record a receivable for sales tax. Likewise, like many cities and counties across the state, the City of Anacortes has historically always reported sales tax revenues based on the tax revenue received within the calendar year, the practice of which has always passed audit in the past.

However, we agree with the auditors new recommendation that sales tax revenues should be reported based on the underlying transactions that occurred within the calendar year, rather than the months of revenue receipt. Our financial statements reflect this correction and we will continue make these adjustments in the future.

Auditor's Remarks

We appreciate the City's commitment to resolve this finding, including applying the appropriate accounting criteria for revenue recognition. We also thank the city for its cooperation and assistance during the audit and will review the matter during our next audit.

Applicable Laws and Regulations

Government Accounting Standards Board Statement No. 33

Governmental Auditing Standards, December 2011 Revision, paragraph 4.23

The American Institute of Certified Public Accountants Codification of Statements on Auditing Standards, section 265

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

Mayor and City Council
City of Anacortes
Anacortes, 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 Anacortes, 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 October 29, 2018.

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 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Audit Findings and Responses as Finding 2017-001 that we consider to be significant deficiencies.

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*.

CITY'S RESPONSE TO FINDINGS

The City's response to the findings identified in our audit is described in the accompanying Schedule of Audit Findings and Responses. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However,

this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

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Pat McCarthy

State Auditor

Olympia, WA

October 29, 2018

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

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

Mayor and City Council
City of Anacortes
Anacortes, 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 Anacortes, 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 13.

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 Anacortes, as of December 31, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated October 29, 2018 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

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

Pat McCarthy
State Auditor
Olympia, WA

October 29, 2018

FINANCIAL SECTION

City of Anacortes 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 Balance – Governmental
Funds – 2017

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

Statement of Net Position – Proprietary Funds – 2017

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

Statement of Cash Flows – Proprietary Funds – 2017

Statement of Fiduciary Net Position – Fiduciary Funds – 2017

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

Notes to the Financial Statements – 2017

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget to Actual
(GAAP Basis) – 2017

Firefighters' Pension Fund GASB Statement No. 67 Money-Weighted Rate of Return –
2017

Firefighters' Pension Fund GASB Statement No. 67 and 68 Schedule of Changes in Net
Pension Liability and Related Ratios – 2017

Firefighters' Pension Fund GASB Statement No. 67 Schedule of Employer Contributions
– 2017

Schedule of Proportionate Share of Net Pension Liability – PERS Plan 1, 2 and 3, LEOFF
1 and 2 – 2017

Schedule of Employer Contributions – PERS Plan 1, 2 and 3, LEOFF 1 and 2 – 2017

Schedule of Funding Progress – LEOFF1 Retiree Medical Benefits – 2017

CITY OF ANACORTES

MANAGEMENT'S DISCUSSION AND ANALYSIS

OVERVIEW

Our discussion and analysis of the City of Anacortes' financial performance provides an overview of the City's financial activities for the fiscal year ended December 31, 2017. Please read it in conjunction with the City's financial statements which follow.

FINANCIAL HIGHLIGHTS

- Net position, the amount by which total assets exceed total liabilities, equal \$188,889,618. A total of 77.3% or \$146,009,045 of total net position net of related debt is invested in capital such as infrastructure, land, and buildings. Of the remaining net position, 8.5%, or \$16,063,344 of total net position is available to meet the government's ongoing activities and obligations, and 14.2%, or \$26,817,229, is restricted for debt service, capital projects, and pension obligations.
- The City of Anacortes' net position increased by \$11,853,052 in 2017.
- Governmental fund balances at year-end were \$16,113,707, a \$3,047,744 increase from the prior year. Of this amount, \$3,691,542 or 23%, of the governmental fund balance is unassigned, all in the General fund; \$7,201,600 or 45% is assigned, which reflects our City's government's intended use for certain resources; \$1,283,377 or 8% is committed, which represents City imposed limitations as to the use of funds by City Council action; and \$3,937,189 or 24% is restricted, which reflects fund resources subject to externally enforceable legal restrictions.

OVERVIEW OF THE FINANCIAL STATEMENTS

The City's basic financial statements are presented in three parts: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. Other supplementary information in addition to the basic financial statements is also contained in this report. This section of the management's discussion and analysis is intended to introduce and explain the basic financial statements.

Government-Wide Financial Statements

The government-wide financial statements are designed to give the reader a picture of the financial condition and activities of the City as a whole. This broad overview is similar to the financial reporting of private-sector businesses. The government-wide financial statements have separate columns for governmental activities and business-type activities. Governmental activities of the City include general government, security of persons and property (police and fire), physical environment, transportation, economic environment and culture & recreation. Property, sales, and utility taxes finance the majority of these functions. The City's business type activities are water, wastewater, solid waste and storm drain utilities. The City's business-type activities are self supporting through user fees and charges.

The **Statement of Net Position** presents information on all of the City's assets and liabilities, highlighting the difference between the two as net position. This statement is similar to the balance sheet of a private sector business. The **Statement of Activities** presents both the gross and net cost of various activities, both governmental and business-type, which are provided by the City. The statement distinguishes revenue generated by specific functions from revenue provided by taxes and other sources not related to a specific function. The revenue generated by specific functions (charges for services, grants, and contributions) is compared to the expenses for those functions to show a net cost for each specific function.

Fund Financial Statements

The annual financial report includes fund financial statements in addition to the government-wide financial statements. Some funds are required to be established by State law and by bond covenants, while the City Council establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes or grants. The City's two kinds of funds, governmental and proprietary, use different accounting approaches.

Governmental funds are used to account for most of the City's basic services, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Comparing the governmental fund statements with the government-wide statements can help the reader better understand the long term impact of the City's current year financing decisions. To assist in this comparison, reconciliations between the governmental fund statements and the government-wide financial statements are included with the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance. The City of Anacortes maintains several individual governmental funds; for fiscal year 2017, the City categorized as major governmental funds the General Fund, the Street Maintenance Fund, and the Ambulance Service Fund. All other governmental funds are combined into a single column labeled *other governmental funds*. The City maintains budgetary control over its operating funds through the adoption of a budget, which is adopted at the fund level according to state law. A budgetary comparison statement is presented for the general fund as a required supplementary information schedule.

Proprietary funds are used by the City to account for business-type activities. Business type activities provide specific goods or services to a group of customers that are paid for by fees charged to those customers. There is a direct relationship between the fees paid and the services received. The City of Anacortes has two types of proprietary funds; enterprise and internal service funds. Enterprise funds are used to account for goods and services provided to outside customers (citizens and businesses). Internal service funds are used to account for goods and services provided internally to various city departments. Enterprise funds of the City are used to report the same functions presented as business-type activities in the government-wide statements with the fund statements providing more detail than is reported in the government-wide statements. The enterprise fund statements provide separate information for the City's water utility, wastewater utility, solid waste utility and the storm drain utility. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for its fleet of vehicles.

Fiduciary funds account for assets held by the City in a trustee capacity for other governments, private organizations or individuals. Fiduciary funds are not included in the government-wide financial statements because the assets are not available to support the City of Anacortes' activities.

Government-Wide Statements

Statement of Net Position

The following table reflects the condensed Statement of Net Position for 2017 compared to 2016.

Table 1
Statement of Net Position

	Government Activities 2017	Business-type Activities 2017	Total for 2017	Government Activities 2016	Business-type Activities 2016	Total for 2016	% of Change Prior Year Total
Assets							
Capital Assets	50,367,329	152,985,395	203,352,724	50,807,420	148,910,458	199,717,877	
Other Assets	26,840,320	33,377,685	60,218,005	23,264,580	33,143,500	56,408,081	
Total Assets	77,207,649	186,363,079	263,570,728	74,072,000	182,053,958	256,125,958	2.91%
Liabilities							
Other Liabilities	3,098,264	6,925,858	10,024,122	2,989,633	4,942,060	7,931,693	
Long-term Liabilities	8,525,377	56,131,611	64,656,988	10,273,618	60,884,081	71,157,699	
Total Liabilities	11,623,641	63,057,469	74,681,110	13,263,251	65,826,141	79,089,392	-5.57%
Net Position							
Restricted	7,386,867	19,430,362	26,817,229	5,604,369	19,470,243	25,074,612	
Unrestricted	8,844,684	7,218,660	16,063,344	6,561,770	7,806,952	14,368,722	
Invested in Capital net of debt	49,352,456	96,656,589	146,009,045	48,642,610	88,950,623	137,593,233	
Total Net Position	65,584,008	123,305,611	188,889,618	60,808,749	116,227,817	177,036,566	6.70%

The largest component of the City's net position, 77% or \$146,009,045, is its investment in capital assets less any related outstanding debt issued to acquire those assets. These capital assets such as streets, buildings, land, waterlines, sewer and storm drain lines and the two treatment plants are used to provide services to the citizens and businesses of the City.

Net position of the City's governmental activities increased by 8% or \$4,775,259 in 2017. The increase was driven by accelerated debt service payments on the Library bond, continuing debt service on the public safety bond, and increased revenue collections from the strong real estate market.

Net position of the City's business type activities increased by 6%, or \$7,077,793 in 2017. This increase is due primarily to continued debt service against the new Water Treatment Plant, and capital collections in the Water and Sewer Utilities for future projects.

\$26,817,229, or 14.3%, of the City's total net position is subject to legal restrictions. Some of the larger restrictions include debt service, impact fees that must be dedicated to a particular use (transportation or parks), lodging taxes reserved for tourism related activities and real estate excise taxes restricted for capital improvements.

CHANGES IN NET POSITION

The following schedule shows the revenues and expenses for the prior year and the current year.

Table 2
Changes in Net Position

		Government Activities 2017	Business-type Activities 2017	Total for 2017	Government Activities 2016	Business-type Activities 2016	Total for 2016	% of Increase (Decrease) from Prior Year Total
Revenues								
	Property Taxes	5,397,063		5,397,063	5,247,081		5,247,081	2.86%
	Sales Taxes	6,876,208		6,876,208	5,338,782		5,338,782	28.80%
	Utility Taxes	4,018,538		4,018,538	3,763,194		3,763,194	6.79%
	All Other General Revenue	11,404,035	280,156	11,684,191	10,743,943	34,1202	11,085,145	5.40%
	Water		20,263,334	20,263,334		17,889,949	17,889,949	13.27%
	Sewer		5,898,183	5,898,183		6,374,455	6,374,455	-7.47%
	Storm		1,040,553	1,040,553		1,052,530	1,052,530	-1.14%
	Sanitation		3,633,893	3,633,893		3,427,444	3,427,444	6.02%
	Total Revenues	27,695,844	31,116,119	58,811,964	25,093,000	29,085,580	54,178,580	8.55%
Expenses:								
	Judicial	643,160		643,160	683,310		683,310	-5.88%
	General Government	2,107,124		2,107,124	2,612,845		2,612,845	-19.36%
	Public Safety	10,611,257		10,611,257	11,006,284		11,006,284	-3.59%
	Physical Environment	727,027		727,027	406,253		406,253	78.96%
	Transportation	2,608,153		2,608,153	3,257,697		3,257,697	-19.94%
	Health & Human Services	87,100		87,100	170,107		170,107	-48.80%
	Economic Environment	1,933,353		1,933,353	1,809,537		1,809,537	6.84%
	Culture & Recreation	4,119,761		4,119,761	4,366,772		4,366,772	-5.66%
	Interest on long-term debt	98,492		98,492	128,849		128,849	-23.56%
	Water		13,625,055	13,625,055		13,210,057	13,210,057	3.14%
	Waste Water		5,256,666	5,256,666		5,157,912	5,157,912	1.91%
	Sanitation		1,510,582	1,510,582		1,515,563	1,515,563	-0.33%
	Storm Drain		3,530,343	3,530,343		3,416,550	3,416,550	3.33%
	Total Expenses	22,935,428	23,922,645	46,858,073	24,441,654	23,300,082	47,741,736	-1.85%
Change in net position								
	before transfers:	4,760,416	7,193,474	11,953,891	651,346	5,785,498	6,436,844	85.71%
Transfers:					0	0	0	
	Change in Net Position:	4,760,416	7,193,474	11,953,891	651,346	5,785,498	6,436,844	
	Net Position - Beginning	60,808,749	116,227,817	177,036,566	61,370,166	110,351,987	171,722,153	
	Change in Accounting - GASB 68				(436,994)		(436,994)	
	Prior Period Adjustment	14,842	(115,681)	(100,839)	(775,769)	90,332	(685,437)	
	Net Position - Ending	65,584,007.51	123,305,611	188,889,618	60,808,749	116,227,818	177,036,566	6.70%

Overall, as reported on the Statement of Net Position, the city had an increase in total net position of \$11,853,082. Of this, governmental activities had an increase in net position of \$4,775,259 from the prior year, and business type activities had an increase in net position of \$7,077,793. The overall increase is due to debt service and continued collection of capital in the utilities.

The purpose of the City's **Governmental Funds** is to report on near term revenues/financial resources and expenditures. This information helps determine the City's financial requirements in the near future. In particular, fund balance is a good indicator of the City's resources available at the end of the year. In 2017, as in the prior year, the City of Anacortes experienced increased revenues and expenditures overall in the governmental funds, with the increase in revenues outpacing expenditure increases. The Governmental Funds ended the year with an increase in fund balance of \$3,047,744, as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balance for the Governmental Funds. Considering all governmental funds, the City was at a better position financially at year end.

Governmental activities reported an increase in net position of \$4,775,259. Key elements of the governmental activities in were:

- Property tax revenue increased \$149,982, or 3%.
- Sales tax revenue increased \$1,537,427 or 29%.
- Utility tax revenue increased \$255,344, or 7%.
- At year end, the General fund, as presented on the balance sheet, reported a fund balance of \$9,828,665 which is an increase of 32%, or \$2,409,978.
- At year end the Ambulance Service fund, as presented on the balance sheet, reported a fund balance of \$568,459, which is an increase of 23% or \$106,434.
- At year end the Street Maintenance fund, as presented on the balance sheet, reported a fund balance of \$361,721, which is a decrease of 5% or \$16,956.

Business-Type Activities reported an increase in net position of \$7,077,793. Key elements of the business type activities in 2017 were:

- Water fund net position increased \$6,841,179, or 9.6%. The increase is due primarily to debt service payments on the utility's outstanding revenue bonds and PWTF loans, and the advance collection of the industrial water customer's debt service requirement on an accelerated schedule helped to increase the utility's net position.
- Sewer fund net position increased \$579,553 or 1.8%. This is due primarily to an increase in General Facility Charges which are receipted when a new residence or business hooks up to the existing sanitary sewer system. This is reflective of the continuing high level of building activity taking place in the City.
- Storm fund net position decreased \$464,900, or 4.4%. The Storm Drain utility had a relatively consistent year compared to the prior year, the decrease in net position is primarily attributable to depreciation of assets.
- Sanitation fund net position increased by 121,961, or 6.3%. The Sanitation fund experienced a very typical year from an operating revenue and expenditure standpoint, under the most recent user fee changes that corresponded to the change in service provider in the prior year.

General Fund Budgetary Highlights

The original General Fund budget was \$17,406,213, and \$18,722,612 at year end, an increase of \$1,316,399 or 8%. The majority of the increase was in the Current Expense fund (Fund 001). The largest expense items

requiring budget amendments were \$450,000 for the grant funded Fire Department Self Contained Breathing Apparatus replacement program that initiated in 2016, \$195,000 in the Planning department to recognize third party plan review costs and to continue a consultant contract to assist in the building code revision, \$40,000 to recognize additional publishing costs, and \$20,000 to purchase an additional fleet vehicle.

Total actual expenditures out of the General Fund were \$16,427,432, as reported in the Statement of Revenues, Expenditures, and Changes in Fund Balances. This is \$2,298,180 under budget.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The City of Anacortes's investment in capital assets for its governmental and business-type activities, net of accumulated depreciation was \$199,717,877. This investment in capital assets includes land, intangible assets, buildings and improvements, infrastructure, machinery and equipment and construction in progress. The City has elected to exclude art and historical treasures. The total increase in the City's investment in capital assets for the current year was \$203,271.

Table 3
Capital Assets at Year-End
(Net of Depreciation)

	Government Activities 2017	Business-type Activities 2017	Total for 2017	Government Activities 2016	Business- type Activities 2016	Total for 2016	% Change From Prior Year Total
Land	21,849,670	1,562,195	23,411,865	21,843,936	1,562,195	23,406,131	0.02%
Buildings	9,065,668	59,068,434	68,134,102	8,613,006	60,458,596	69,071,602	-1.36%
Intangible Assets		414,716	414,716		422,060	422,060	-1.74%
Infrastructure & Improvements Other than Buildings	11,166,693	68,701,334	79,868,027	12,417,617	69,565,231	81,982,848	-2.58%
Machinery and Equipment	7,087,246	15,541,837	22,629,083	6,130,994	15,192,789	21,323,782	6.12%
Construction in Progress	1,198,052	7,696,880	8,894,932	1,801,867	1,709,587	3,511,455	153.31%
Total	50,367,329	152,985,395	203,352,724	50,807,420	148,910,458	199,717,877	1.82%

As per the Statement of Activities, Internal Service Funds net capital assets are included in the Governmental Activities capital assets.

More information on the City of Anacortes' capital assets can be found in Note 4 of this report.

Debt

At year-end, the City had \$57,110,088 in bonds and loans outstanding versus \$61,846,542 last year, a decrease of \$4,736,455. The decrease was due to annual debt service payments, plus an additional debt payment made on the 2005 General Obligation Library bond.

Table 4
Outstanding Debt at Year-End

General Obligation and Revenue Bonds and Loans

	Government Activities 2017	Business-type Activities 2017	Government Activities 2016	Business-type Activities 2016	% Change from Prior Year Total
General obligation bonds and loans	1,170,000		2,330,000		-49.79%
Revenue bonds and loans		55,940,088		59,516,542	-6.01%
total	57,110,088		61,846,542		-7.66%

The City of Anacortes is authorized to issue debt pursuant to the Acts of the State of Washington; with voter approval, the city can issue debt up to 2.5 percent of the assessed valuation. Without a vote, the City can incur debt up to an amount equal to 1.5 percent of the assessed valuation of taxable property within the City. The combination of unlimited tax and limited tax general obligation debt for all purposes cannot exceed 7.5 percent.

More information on the City of Anacortes' debt can be found in Note 8 of this report.

ECONOMIC FACTORS AND THE 2018 BUDGET

On November 28, 2016 the City of Anacortes adopted its first biennial budget, spanning the 2017/2018 biennium. For reporting purposes, we consider each year of the biennium on its own, each year having its own budget and expenditures, the figures not spanning across the biennium. From an economic standpoint, 2017 was a strong year for the City of Anacortes, with continued to revenue growth across all major revenue streams. Sales tax revenue growth exceeded 2016 by 11.3%, the growth being led by residential and commercial construction, vehicle sales, marine, and hospitality trades. Generally, revenues were up over the prior year, in particular revenue streams associated with the real estate market, vehicle sales, and hospitality industries.

This growth in revenues, along with economic indicators published in state and federal publications regarding expected economic growth, were considered when doing the mid biennial update for 2017/2018 biennial budget. As we finish up the first third of the 2018 budget year, major tax revenues are actually slightly exceeding projections, with expenditures tracking close to budget.

Looking at actual governmental revenues over the past several years, and year to date 2018, there is much reason for optimism. However, the City recognizes the country is in one of the longest economic expansions in history, and as we head into the next budget season we will remember that every economic expansion in the past has come to an end at some point. At this time there are currently no foreseeable restrictions or other limitations that would significantly impact funding resources for future uses.

The Current Expense Fund adopted budget for 2018 has \$14,854,451 allocated for appropriation. Current Expense fund adopted budget expenditures for 2017 were \$14,837,983.

The City's assessed property values was \$3,289,763,092 in 2017 resulting in a general millage of \$1.53 per \$1000 of assess value; this compares to the 2016 assessment of \$3,042,165,745 with a general millage of \$1.62 per \$1000 of assessment.

The State of Washington, by constitution, does not have a state personal income tax and therefore the state operates primarily using property, sales, business and occupation, and gasoline taxes. The City of Anacortes primarily relies on property, sales and utility taxes to fund governmental activities.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City's Finance Director at (360) 293-1906, email steveh@cityofanacortes.org, mailing address P.O. Box 547, Anacortes, WA, 98221.

CITY OF ANACORTES
STATEMENT OF NET POSITION
December 31, 2017

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current assets:			
Cash	2,051,937	1,380,112	\$ 3,432,049
Investments	14,335,617	9,660,787	23,996,404
Restricted cash and investments			
Customer Deposits			-
Capital reserve	4,539,165	14,866,752	19,405,917
Bond covenant accounts	-	4,563,610	4,563,610
Accounts receivable (net)	2,209,315	2,138,064	4,347,379
Internal balances	-	-	-
Due from other governments	237,578		237,578
Inventory	-	233,153	233,153
Noncurrent assets:			
Pension Assets	2,602,495	-	2,602,495
Capital Assets			
Land	21,849,670	1,562,195	23,411,865
Depreciable assets (net)	27,319,607	143,726,320	171,045,927
Construction in progress	1,198,052	7,696,880	8,894,932
Total Assets	<u>76,343,436</u>	<u>185,827,873</u>	<u>262,171,309</u>
Deferred Outflow of Resources			
Pension	864,213	535,207	1,399,419
Total Assets and Deferred Outflow of Resources	<u>77,207,649</u>	<u>186,363,079</u>	<u>263,570,728</u>
LIABILITIES			
Current liabilities:			
Accounts payable	469,006	2,361,099	2,830,105
Retainage Payable	13,514	158,123	171,637
Deposits Payable	20,645	7,500	28,145
Compensated absences	49,777	15,347	65,124
Payable to other governments	11,941	1,111	13,052
Matured bonds, notes, loans payable	705,000	3,831,455	4,536,455
Noncurrent liabilities:			
Net post employment obligation	2,971,156		2,971,156
Compensated absences	945,762	291,599	1,237,362
Net Pension Liability	4,298,586	3,342,660	7,641,246
Bonds, notes, loans payable	309,873	52,497,351	52,807,224
Total Liabilities	<u>9,795,259</u>	<u>62,506,247</u>	<u>72,301,506</u>
Deferred Inflow of Resources			
Unearned Revenue	574,544		574,544
Pension	1,253,838	551,222	1,805,060
Total Deferred Inflow of Resources	<u>1,828,382</u>	<u>551,222</u>	<u>2,379,604</u>
Total Liabilities and Deferred Inflow of Resources	<u>11,623,641</u>	<u>63,057,469</u>	<u>74,681,110</u>
NET POSITION			
Net investment in capital assets	49,352,456	96,656,589	146,009,045
Restricted for:			
Debt service	-	4,563,610	4,563,610
Capital projects	4,539,165	14,866,752	19,405,917
Pension Assets	2,847,702	-	2,847,702
Unrestricted	8,844,684	7,218,660	16,063,344
Total Net Position	<u>\$ 65,584,008</u>	<u>123,305,611</u>	<u>\$ 188,889,618</u>

The accompanying notes are an integral part of this statement

CITY OF ANACORTES
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2017

Functions/Program	Program Revenues			Net (Expense) Revenue & Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities:							
Judicial	\$ 643,160	\$ 179,541	\$ 4,786	\$ -	\$ (458,833)	\$ -	\$ (458,833)
General government	2,107,124	1,168,522	40,855	-	(897,748)	-	(897,748)
Public safety	10,611,257	1,693,821	1,123,067	-	(7,794,368)	-	(7,794,368)
Physical environment	727,027	122,683	916,164	-	311,820	-	311,820
Transportation	2,608,153	98,566	-	634,682	(1,874,905)	-	(1,874,905)
Social Services	87,100	-	-	-	(87,100)	-	(87,100)
Economic environment	1,933,353	1,133,347	-	44,903	(755,103)	-	(755,103)
Culture and recreation	4,119,761	522,203	47,060	166,976	(3,383,521)	-	(3,383,521)
Interest on long-term debt	98,492				(98,492)	-	(98,492)
Total governmental activities	<u>22,935,428</u>	<u>4,918,684</u>	<u>2,131,933</u>	<u>846,562</u>	<u>(15,038,249)</u>	<u>-</u>	<u>(15,038,249)</u>
Business-type activities:							
Water	13,625,055	10,408,019	617,884	9,237,431	-	6,638,279	6,638,279
Sewer	5,256,666	4,747,603	30,323	1,120,257	-	641,517	641,517
Storm Drainage	1,510,582	750,003	8,950	281,600	-	(470,029)	(470,029)
Sanitation	3,530,343	3,633,893	-	-	-	103,551	103,551
Total business-type activities	<u>23,922,645</u>	<u>19,539,517</u>	<u>657,157</u>	<u>10,639,289</u>	<u>-</u>	<u>6,913,318</u>	<u>6,913,318</u>
Total government	<u>\$ 46,858,073</u>	<u>\$ 24,458,201</u>	<u>\$ 2,789,090</u>	<u>\$ 11,485,850</u>	<u>\$ (15,038,249)</u>	<u>\$ 6,913,318</u>	<u>\$ (8,124,931)</u>
General revenues:							
		Property taxes			5,397,063		5,397,063
		Sales taxes			6,876,208		6,876,208
		Utility taxes			4,018,538		4,018,538
		Other taxes			2,534,316		2,534,316
		Unrestricted grants & contributions			362,223		362,223
		Investments earnings			176,622	280,156	456,779
		Disposition of capital assets			97,647		97,647
		Micellaneous general revenue			336,048		336,048
		Transfers, internal activities			-		-
		Total general revenues and transfers			<u>19,798,666</u>	<u>280,156</u>	<u>20,078,822</u>
Change in Net Position							
Net Position-Beginning					4,760,416	7,193,474	11,953,891
Prior Period Adjustment					60,808,749	116,227,817	177,036,566
Net Position-Ending					<u>14,842</u>	<u>(115,681)</u>	<u>(100,839)</u>
					\$ 65,584,008	\$ 123,305,611	\$ 188,889,618

The accompanying notes are an integral part of this statement

CITY OF ANACORTES
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2017

	General Fund	Street Maintenance Fund	Ambulance Service Fund	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash	\$ 1,132,348	33,626	14,106	663,772	\$ 1,843,851
Investments	7,898,389	235,403	98,749	4,646,879	12,879,420
Receivables (net)	1,426,825	106,857	499,075	175,554	2,208,311
Total Assets	\$ 10,457,561	375,885	611,929	5,486,205	\$ 16,931,581
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 272,057	3,082	42,800	116,626	\$ 434,565
Payable other governments	11,646	-	38	0.0	11,684
Due to other funds	-	-	-	-	-
Retainage Payable	6,117	4,336	-	3,060	13,514
Deferred inflows of resources	318,431	6,747	632	11,656	337,467
Deposits payable	20,645	-	-	-	20,645
Matured bonds, notes, loans payable	-	-	-	-	-
Matured interest payable	-	-	-	-	-
Total Liabilities	\$ 628,896	14,165	43,470	131,343	\$ 817,874
Fund Balances:					
Nonspendable	-	-	-	-	-
Restricted	132,517	-	-	3,804,672	3,937,189
Committed	318,417	-	-	964,960	1,283,377
Assigned	5,683,129	361,720	568,459	588,291	7,201,600
Unassigned	3,694,603	-	-	(3,060)	3,691,542
Total Fund Balances	9,828,665	361,720	568,459	5,354,863	16,113,707
Total Liabilities and Fund Balances	\$ 10,457,561	\$ 375,885	611,929	5,486,205	\$ 16,931,581
Total Fund Balance for Governmental Funds					\$ 16,113,707
Amounts reported for governmental activities in the statement of net assets are different because:					
Capital assets used in governmental activities are not financial resources and; therefore, are not reported in the funds					45,397,998
Other long-term assets are not available to pay for current-period expenditures and; therefore, are deferred in the funds					3,673,382
Internal service funds are used by management to charge the costs of fleet management to individual funds. The assets and liabilities are included in governmental activities in the statement of net assets					10,929,492
Long-term liabilities, including bonds payable, are not due and payable in the current period and; therefore, are not reported in the funds					(10,530,572)
Net assets of governmental activities					\$ 65,584,008

The accompanying notes are an integral part of this statement

CITY OF ANACORTES
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended December 31, 2017

	General Fund	Street Maintenance Fund	Ambulance Service Fund	Other Governmental Funds	Total Governmental Funds
REVENUES					
Taxes:					
Property	\$ 3,760,064	677,526	121,996	837,477	\$ 5,397,063
Sales	5,859,389	-	545,078	471,742	6,876,208
Utility	3,734,156	284,382	-	(0)	4,018,538
Other	748,990	430,625	-	1,354,701	2,534,316
Licenses and permits	1,348,690	15,051	-	1,925	1,365,666
Intergovernmental	1,313,615	126,475	917,434	825,184	3,182,708
Charge for services	1,508,494	21,015	919,645	143,446	2,592,599
Fines and forfeitures	179,642	6,599	-	(0)	186,242
Investment income	75,477	415	1,431	50,364	127,688
Other revenue	264,252	-	36,500	32,791	333,543
Total Revenues	<u>18,792,769</u>	<u>1,562,088</u>	<u>2,542,084</u>	<u>3,717,630</u>	<u>26,614,571</u>
EXPENDITURES					
Current:					
Judicial	649,843	-	-	-	649,843
General government	1,912,580	-	-	-	1,912,580
Public safety	7,337,003	-	2,395,902	-	9,732,905
Physical environment	349,848	-	-	-	349,848
Transportation	70,220	2,460,464	-	61,556	2,592,241
Social Services	86,785	-	-	-	86,785
Economic environment	1,266,146	-	-	299,834	1,565,980
Culture and recreation	3,929,886	-	-	1,308	3,931,194
Capital outlay	685,227	-	39,748	773,225	1,498,200
Debt service:					
Principal	-	-	-	1,160,000	1,160,000
Interest and debt issue costs	-	-	-	88,429	88,429
Total Expenditures	<u>16,287,539</u>	<u>2,460,464</u>	<u>2,435,650</u>	<u>2,384,352</u>	<u>23,568,005</u>
Excess (deficiency) of revenues over (under) expenditures	<u>2,505,230</u>	<u>(898,376)</u>	<u>106,434</u>	<u>1,333,278</u>	<u>3,046,567</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	237,627	915,332	-	394,360	1,547,319
Transfers out	(334,056)	-	-	(1,213,263)	(1,547,319)
Refunding debt proceeds	-	-	-	-	-
Use of refunding debt proceeds	-	-	-	-	-
Capital Leases	-	-	-	-	-
Disposition of capital assets	1,177	-	-	-	1,177
Total other financing sources (uses)	<u>(95,252)</u>	<u>915,332</u>	<u>-</u>	<u>(818,903)</u>	<u>1,177</u>
Net change in fund balances	2,409,978	16,956	106,434	514,376	3,047,744
Fund Balances - January 1	<u>7,418,687</u>	<u>\$ 344,764</u>	<u>\$ 462,025</u>	<u>\$ 4,840,487</u>	<u>13,065,964</u>
Prior Period Adjustments	-	-	-	-	-
Fund Balances - December 31	<u>\$ 9,828,665</u>	<u>\$ 361,720</u>	<u>\$ 568,459</u>	<u>\$ 5,354,863</u>	<u>\$ 16,113,707</u>

The accompanying notes are an integral part of this statement

CITY OF ANACORTES
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2017

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

Net Change in fund balances - total governmental funds	\$ 3,047,744
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	(571,272)
The net effect of various miscellaneous transactions involving capital assets (i.e. sales, donations) is to increase net assets	(287,531)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds	158,010
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. 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.	1,149,937
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds	(671)
Internal service funds are used by management to charge the costs of fleet management to individual funds. The net revenue of certain activities of internal service funds is reported with governmental activities.	<u>1,264,200</u>
Change in net assets of governmental activities	<u><u>4,760,415</u></u>

The accompanying notes are an integral part of this statement

CITY OF ANACORTES
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
December 31, 2017

	Water	Sewer	Storm Drain	Sanitation	Total Enterprise Funds	Governmental Activities Internal Service Funds
ASSETS						
Current Assets:						
Cash	418,469	681,114	9,690	270,840	1,380,112	775,431
Investments	2,929,282	4,767,796	67,830	1,895,879	9,660,787	5,428,018
Restricted cash and investments						
Capital reserve	14,454,509	-	412,243	-	14,866,752	-
Bond covenant accounts	4,563,610	-	-	-	4,563,610	-
Receivable (net)	1,474,516	522,326	30,876	110,345	2,138,064	1,004
Due from other funds	-	-	-	-	-	-
Inventory	233,153	-	-	-	233,153	-
Noncurrent Assets:						
Pension assets	-	-	-	-	-	-
Capital assets						
Land	481,002	786,247	294,947	-	1,562,195	10,384
Depreciable assets (net)	108,374,629	25,451,129	9,654,557	246,004	143,726,320	4,831,688
Construction in progress	3,878,801	3,810,540	7,539	-	7,696,880	127,259
Total Assets	136,807,972	36,019,152	10,477,681	2,523,068	185,827,873	11,173,785
Deferred Outflow of Resources						
Pension	218,519	196,644	67,131	52,912	535,207	30,903
Total Assets and Deferred Outflow of Resources	137,026,490	36,215,796	10,544,812	2,575,981	186,363,079	11,204,688
LIABILITIES						
Current Liabilities:						
Accounts payable	567,820	1,696,006	5,654	91,619	2,361,099	34,441
Due to other funds	-	-	-	-	-	-
Compensated absences	5,929	5,314	2,477	1,628	15,347	821
Retainage payable	27,411	123,040	5,907	1,764	158,123	(0)
Lease deposit payable	-	7,500	-	-	7,500	-
Payable to other governments	316	790	-	5	1,111	257
Matured bonds, notes, loans payable	3,831,455	-	-	-	3,831,455	-
Noncurrent Liabilities:						
Compensated absences	112,658	100,957	47,055	30,929	291,599	15,592
Net pension liability	1,358,796	1,229,205	424,115	330,543	3,342,660	192,364
Bonds, notes, loans payable	52,497,351	-	-	-	52,497,351	-
Total Liabilities	58,401,737	3,162,813	485,209	456,488	62,506,247	243,474
Deferred Inflow of Resources						
Pension	224,073	202,702	69,939	54,508	551,222	31,722
Total Liabilities and Deferred Inflow of Resources	58,625,810	3,365,515	555,148	510,996	63,057,469	275,196
NET POSITION						
Net investment in capital assets	56,405,627	30,047,916	9,957,042	246,004	96,656,589	4,969,331
Restricted for debt service	4,563,610	-	-	-	4,563,610	-
Restricted for capital reserve	14,454,509	-	412,243	-	14,866,752	-
Unrestricted	2,976,935	2,802,365	(379,620)	1,818,980	7,218,660	5,960,161
Total net position	78,400,680	32,850,281	9,989,665	2,064,984	123,305,611	10,929,492

The accompanying notes are an integral part of this statement

CITY OF ANACORTES
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
For the Year Ended December 31, 2017

	Water	Sewer	Storm Drain	Sanitation	Totals	Governmental Activities Internal Service Funds
Operating revenues:						
Charges for utility services	10,408,019	4,747,603	750,003	3,633,893	19,539,517	
Charges for other services						2,833,899
Total operating revenue	10,408,019	4,747,603	750,003	3,633,893	19,539,517	2,833,899
Operating expenses:						
Maintenance and operations	6,534,131	3,958,523	1,024,230	3,289,020	14,805,904	856,569
In-lieu of tax	-	-	-	-	-	-
Administrative and general	1,299,979	367,011	148,272	249,890	2,065,151	152,877
Depreciation	3,319,266	997,360	316,253	14,673	4,647,552	717,218
Total operating expenses	11,153,376	5,322,894	1,488,755	3,553,583	21,518,607	1,726,664
Operating income (loss)	(745,358)	(575,291)	(738,752)	80,310	(1,979,090)	1,107,235
Nonoperating revenues (expenses):						
Intergovernmental revenue	613,197	-	-	-	613,197	-
Investment earnings	202,900	53,717	5,130	18,410	280,156	48,935
Interest expense	(2,596,532)	-	-	-	(2,596,532)	-
Debt issuance costs	-	-	-	-	-	-
Gain (loss) on sale of capital assets	(2,916)	(4,388)	(39,503)	657	(46,150)	95,801
Pension Expense	127,769	70,615	17,676	22,583	238,644	9,724
Miscellaneous revenues (expenses)	4,687	30,323	8,950	-	43,961	2,505
Total nonoperating revenue (expense)	(1,650,894)	150,267	(7,748)	41,651	(1,466,724)	156,965
Income (loss) before contributions and transfers	(2,396,252)	(425,023)	(746,500)	121,961	(3,445,814)	1,264,200
Capital contributions	9,237,431	1,120,257	281,600	-	10,639,289	-
Transfers in	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-
Change in net position	6,841,179	695,234	(464,900)	121,961	7,193,474	1,264,200
Total net position - beginning	71,559,501	32,270,728	10,454,565	1,943,024	116,227,817	9,665,292
Change in Accounting Principles-G	-	-	-	-	-	-
Prior period correction	-	(115,681.16)	-	-	(115,681.16)	-
Total net position - ending	78,400,680	32,850,281	9,989,665	2,064,984	123,305,611	10,929,492

The accompanying notes are an integral part of this statement

City of Anacortes
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2017

	Business-Type Activities					Governmental Activities
	Water Fund	Sewer Fund	Storm Drain	Sanitation Fund	Totals	Internal Service Fund
Cash flows from operating activities						
Receipts from customers and users	8,975,602	4,476,873	735,360	3,594,919	17,782,754	10,719
Receipts from interfund services provided	98,109	35,580	16,360	49,990	200,039	2,830,401
Payments to suppliers	(3,710,340)	(68,127)	(214,263)	(2,155,956)	(6,148,686)	(564,093)
Payments to employees	(3,575,482)	(2,527,711)	(737,698)	(694,279)	(7,535,169)	(389,210)
Payments for interfund services used	(483,082)	(475,220)	(202,644)	(783,169)	(1,944,115)	(88,755)
Other cash received	4,687	194	8,950	-	13,831	2,505
Other cash paid	-	7,500	-	-	7,500	-
Net cash provided by operating activities	1,309,494	1,449,089	(393,935)	11,505	2,376,153	1,801,567
Cash flows from noncapital financing activities						
Transfer to other funds	-	-	-	-	-	-
Advances from other funds	-	-	-	-	-	-
Subsidies from federal grants	-	-	-	-	-	-
Net cash provided (used) by noncapital financing activities	-	-	-	-	-	-
Cash flows from capital and related financing activities						
Proceeds from capital debt	613,197	-	-	-	613,197	-
Capital contributions received/(used)	7,012,273	3,367,999	298,897	-	10,679,169	-
Acquisitions of capital assets	(4,220,948)	(4,377,150)	(124,392)	-	(8,722,489)	(1,121,088)
Principal paid on capital debt	(3,631,029)	-	-	-	(3,631,029)	-
Interest paid on capital debt	(2,596,532)	-	-	-	(2,596,532)	-
Proceeds from sales of capital assets	(2,916)	(4,388)	(39,503)	657	(46,150)	95,801
Net cash provided (used) by capital and related financing activities	(2,825,955)	(1,013,538)	135,002	657	(3,703,834)	(1,025,286)
Cash flows from investing activities						
Proceeds (purch) from sales/maturities of investments	2,431,513	(371,751)	255,524	73,221	2,388,507	(470,362)
Interest and dividends received	202,900	53,717	5,130	18,410	280,156	48,935
Net cash provided (used) by investing activities	2,634,413	(318,034)	260,654	91,631	2,668,664	(421,427)
Net increase (decrease) in cash and cash equivalents	1,117,952	117,517	1,720	103,793	1,340,983	354,853
Cash at beginning of year	1,677,570	563,597	59,496	167,047	2,467,709	420,578
Less: amount reported in <i>restricted assets</i>	1,313,055	175,753	33,586	-	1,522,394	-
Beginning cash - statement of net position	364,515	387,844	25,910	167,047	945,315	420,578
Cash at end of year	2,795,522	681,114	61,216	270,840	3,808,691	775,431
Less: amount reported in <i>restricted assets</i>	2,377,053	-	51,526	-	2,428,579	-
Ending cash - statement of net position	418,469	681,114	9,690	270,840	1,380,112	775,431
Reconciliation of operating income to net cash provided (used) by operating activities						
Net operating income (loss)	\$ (745,358)	\$ (575,291)	\$ (738,752)	\$ 80,310	(1,979,090.18)	1,107,235.27
Adjustments to reconcile operating income to net cash provided (used) by operating activities:						
Depreciation/Amortization	3,319,266	997,360	316,253	14,673	4,647,552.06	717,218
(Increase) decrease in accounts receivable	(1,332,850)	(265,279)	1,718	11,016	(1,585,395.45)	7,221
(Increase) decrease in intergovernmental recvble	314	748	-	(110)	952.26	265
(Increase) decrease in due to/from other funds	-	-	-	-	-	-
(Increase) decrease in inventory	(1,912)	-	-	-	(1,911.77)	-
(Increase) in deposits paid	-	7,500	-	-	7,500.00	-
Increase (decrease) in customer deposits	-	-	-	-	-	-
Increase (decrease) in accounts payable	58,915	1,360,330	(2,634)	(86,099)	1,330,512.24	(32,757)
Increase (decrease) in compensated absences pay	6,431	9,079	20,531	(8,286)	27,754.85	(121)
Non-operating income reported as operating	-	-	-	-	-	-
Non-operating expense reported as operating	-	-	-	-	-	-
Other (includes prior period adjustment)	4,687	(85,358)	8,950	-	(71,720.64)	2,505
Total adjustments	2,054,852	2,024,380	344,817	(68,805)	4,355,244	694,331
Net cash provided by operating activities	\$ 1,309,494	\$ 1,449,089	\$ (393,935)	\$ 11,505	\$ 2,376,153	\$ 1,801,567

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

CITY OF ANACORTES
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
December 31, 2017

	Pension Trust Fund	Private Purpose Trust Funds	Agency Funds
ASSETS			
Cash	25,823	311,190	3,691
Investments	180,777	2,385,309	25,843
Receivables:	65	-	-
Total Assets	206,666	2,696,499	29,534
LIABILITIES			
Liabilities:			
Accounts payable	-	-	-
Deposits payable	-	-	29,534
Other liabilities	65	-	-
Total Liabilities	65	-	29,534
NET POSITION			
Assets held in trust for pension benefit	206,600		
Investment trust participants		2,696,499	
	206,600	2,696,499	

The accompanying notes are an integral part of this statement

CITY OF ANACORTES
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
For the Year Ended December 31, 2017

	Pension Trust Fund	Private Purpose Trust Funds
!		
ADDITIONS		
Contributions:		
Taxes	26,792	-
Grants and donations	-	162,350
Other	-	2,863
Total contributions	<u>26,792</u>	<u>165,213</u>
Investment earnings	<u>1,810</u>	<u>22,897</u>
Total Additions	28,601	188,110
DEDUCTIONS		
Benefits	32,624	-
Administrative expenses	-	-
Total deductions	<u>32,624</u>	<u>-</u>
Change in net position	(4,023)	188,110
Net position - beginning	<u>210,623</u>	<u>2,508,389</u>
Net position - ending	<u><u>206,600</u></u>	<u><u>2,696,499</u></u>

The accompanying notes are an integral part of this statement

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

REPORTING ENTITY

The City of Anacortes was incorporated on May 19, 1891 and operates under the laws of the State of Washington applicable to a non-charter code city with a Mayor-Council form of government. As required by GAAP, the financial statements present the City of Anacortes, the primary government, and its component units. The City does not participate in any joint ventures.

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e. the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

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

As a general rule the effect of the interfund activity has been eliminated in the government-wide financial statements.

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.

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. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

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

The City reports the following major governmental funds:

General Fund

This fund is the City's operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. The General Fund includes Police, Fire, Finance, Planning, Building, Parks, Cemetery, and Library services. Primary resources of the General Fund are taxes, including property tax, sales tax, and utility tax.

Street Maintenance Fund

This fund accounts for funding and expenditures for road maintenance. Primary resources of the Street Maintenance Fund are property taxes, motor vehicle fuel tax, utility tax, and operating transfers.

Ambulance Service Fund

This fund accounts for all funding and expenditures for the ambulance portion of the fire department. Primary resources of the Ambulance Service Fund include property tax, sales tax, Emergency Medical Services special levy property tax, and charges for ambulance services.

Proprietary Funds

The City reports the following major enterprise funds: Water, Sewer, Storm Drain, and Sanitation. These funds account for operations that provide goods or services to the general public and are supported primarily through user charges.

Additionally the city reports the following fund types:

Special Revenue Funds

These funds account for revenues derived from specific taxes, grants, or other sources which are designated to finance particular activities of the City.

Debt Service Funds

These funds account for the accumulation of resources to pay principal, interest and related costs on general long-term bonded debt.

Capital Projects Funds

These funds account for financial resources, which are designated for the acquisition or construction of general government capital improvements.

Internal Service Funds

Internal Service Funds accounts for operations that provide goods or services to other departments or funds of the City or to other governmental units on a cost-reimbursement basis.

Fiduciary Funds

Investment trust funds earn revenue and make expenditures on behalf of the parties for which a trust was established. The entire income and principal (or corpus) of an investment trust may be disbursed in the course of its operations.

The pension trust fund is used to account for the operations of a trust established for employee retirement benefits.

The private-purpose trust funds earn revenue on behalf of the parties for which the trust was established, but the principal (or corpus) of the trust must remain intact.

Agency Funds

Agency Funds are used to account for situations where the city's role is purely custodial, for the receipt, temporary investment, and remittance of resources to another entity.

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.

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

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in

connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the utility funds are charges to customers. 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, and then unrestricted resources as needed.

BUDGETS AND BUDGETARY ACCOUNTING

Scope of Budget

Biennial appropriated budgets are adopted for the general, special revenue, and for all proprietary funds on the modified accrual basis of accounting. Budgets for debt service and capital project funds are adopted at the level of the individual debt issue or project and for fiscal periods that correspond to the lives of debt issues or projects.

Other budgets are adopted at the level of the fund, except in the general (current expense) fund, where expenditures may not exceed appropriations at the department level and the budgets constitute the legal authority for expenditures at that level.

Appropriations for general and special revenue funds lapse at year-end (except for appropriations for capital outlays, which are carried forward from year to year until fully expended or the purpose of the appropriation has been accomplished or abandoned).

Amending the Budget

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

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

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

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

ASSETS, LIABILITIES, FUND BALANCE, NET POSITION

Cash

It is the City's policy to invest all temporary cash surpluses. At December 31, 2017, the treasurer was holding \$6,848,733 in short-term residual investments of surplus cash. This amount is classified on the balance sheet as cash in various funds. The interest on these investments is prorated to various funds.

The City maintained no compensating balances in 2017.

Investments

See Note 3.

Receivables

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

Special assessments are recorded when levied. Special assessments receivable consist of current and delinquent assessments and related interest and penalties. Deferred assessments consist of unbilled

special assessments that are liens against the property benefited. As of December 31, 2017 no special assessments receivable were delinquent.

Customer accounts receivable consists of amounts owed from private individuals or organizations for goods and services including amounts owed for which billings have not been prepared. The city has established an allowance for doubtful accounts for receivables turned over to collections; the city reports net receivables on its reports. Notes and contracts receivable consist of amounts owed on open account from private individuals or organizations for good and services rendered.

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 year are referred to as either "interfund loans receivable/payable" or "advances to/from other funds." All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as internal balances. A separate schedule of interfund loans receivable and payable is furnished in Note 10 of this report.

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

Inventories

Inventories in governmental funds and all enterprise funds other than water fund, consist of expendable supplies held for consumption. The cost is recorded as expenditures at the time individual inventory items are purchased.

Inventories in the water enterprise fund are valued by the weighted average method which approximates the market value. Inventory checks are completed bimonthly by choosing 20 random parts and counting them. A complete physical inventory is performed at year end. No significant discrepancies were found in 2017.

Restricted Assets and Liabilities

These accounts contain resources for debt service and enterprise funds. Specific debt service reserve requirements are described in Note 9. The current portion of liabilities payable from restricted assets are shown as Matured Bonds, Notes, and Loans Payable.

The restricted assets of the enterprise funds are composed of the following:

Cash and Investments – Debt Service	\$ 4,563,610
Cash and Investments – Capital Projects	\$ 14,866,752

Capital Assets and Depreciation (See Note 4)

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 \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

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.

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

Buildings:	20-50 years
Other Improvements:	
Water/Sewer Lines	30-50 years
Other Structures & Fixtures	15-50 years
Equipment:	
Vehicles & Heavy Equipment	5-20 years
Office & Computing Equipment	3-10 years
Other Equipment	5-35 years

Deferred Inflows/Outflows

Deferred inflows include amounts recognized as receivables but not revenues in governmental funds because the revenue recognition criterion has not been met.

Compensated Absences

Compensated absences (accrued employee benefits) are absences for which employees will be paid, such as vacation and sick leave. The City records all accumulated unused vacation leave hours. Vacation leave accumulates from 12 to 25.5 days annually (and may be accumulated up to a maximum of 22 to 30 days) depending on tenure and is payable upon resignation, retirement, or death. Sick leave accumulates at 12 days annually until a maximum of 180 days is reached. For teamster and management employees, unused sick leave is paid out only upon retirement, paid at 0, 18 or 25 percent of their balance based on the amount of unused hours they have banked. Commissioned police employees may receive a cash buy out in an amount equal to 50% of their then existing sick leave accrual balance up to a maximum of 500 hours. In addition, commissioned police members may increase the percentage of their sick leave payout at retirement by earning fitness evaluation credits of up to 3% each year. IAFF fire employees may receive a cash buy out in an amount equal to 25% of their then existing sick leave accrual balance. In addition, IAFF members may increase the percentage of their sick leave payout at retirement by earning fitness evaluation credits of up to 3% each year. Firefighters can bank up to 350 hours in their vacation leave bank.

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.

Long-term Debt

See Note 9.

Fund Balance Classification

The City's fund balances are classified in accordance with Governmental Accounting Standards Board Statement No. 54 (GASB 54), Fund Balance Reporting and Governmental Fund Type definitions, which requires the City to classify its fund balances based on spending constraints imposed on the use of resources. Fund balances of the governmental funds are classified as follows:

Non-spendable – amounts that cannot be spent because they are either not in spendable form (such as inventory), or legally or contractually required to remain intact (such as notes or interfund receivables).

Restricted – amounts constrained by external parties, constitutional provision, or enabling legislation. Effectively, restrictions may only be changed or lifted with the consent of the resource provider.

Committed – amounts formally constrained by a government using its highest level of decision-making authority (City Council). The commitment of these funds can only be changed by the government taking the same formal action (ordinance) that imposed the constraint originally.

Assigned – amounts that are constrained by the City’s expressed intent to use resources for specific purposes but do not meet the criteria to be classified as restricted or committed. The City Council has the authority to assign amounts intended to be used for specific purposes. The City Council also delegates to the Mayor the authority to assign amounts intended to be used for specific purposes. The assignment cannot exceed the available fund balance in any fund. With the exception of the General Fund, this is the residual fund balance of the classification of all governmental funds with positive balances.

Unassigned – residual amounts that are otherwise not constrained at all will be reported in the general fund. These are technically available for any purpose. Only the General Fund can report a positive “unassigned fund balance”.

The City considers restricted fund balance to be spent when an expenditure is incurred for purposes for which restricted and unrestricted fund balances are available unless prohibited by legal constraints or contracts. When an expenditure is incurred for purposes for which committed, assigned or unassigned amounts are available; the City considers committed fund balance to be spent first, then assigned fund balance, and lastly unassigned fund balance.

City council adopted ordinance 2995 in 2016 which established emergency reserve funds, also referred to as the Economic Stabilization Reserve Fund, or rainy day fund, within the General fund, and each of the enterprise utility funds. The General fund reserve is established for use by the General fund, and other governmental operating funds. The reserve is to be set at an amount equal to 20% of the expenditures of the following operating funds: 001, 101, 102, 103, 104, 107, and 110. The reserve balances in the utilities are to be set at 10% of the annual revenues of the funds, the utilities reserves resides within their own fund. The use of these reserve funds must be authorized by a majority plus one of the City Council members, and replenished within three years of use.

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

EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUNDS BALANCE SHEET AND THE GOVERNMENT-WIDE STATEMENT OF NET POSITION

The governmental funds' balance sheet includes a reconciliation between fund balance – total governmental funds and net position – governmental activities as reported in the government-wide statement of net position.

The Capital Assets reconciling amount is the total of Land, Depreciable Assets, and Construction in Process of the Governmental Funds. The Long Term Liabilities reconciling amount is the total of outstanding GO debt for the Library, and Public Safety building, the net of premiums and discounts of governmental bonds, employee vacation liability, and Net Pension Obligation.

EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES AND THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES

The governmental funds' statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances – total governmental funds and changes in net position of governmental activities as reported in the government-wide statement of activities.

The Expenses reconciling amount is the total of the change in employee vacation liability, the amortization of premiums and discounts of governmental bonds, and the change in Net Pension Obligation.

Note 3- Deposits and Investments

A. Deposits

It is the policy of the City of Anacortes to invest public funds in a manner which will maximize investment return with the maximum security while meeting the daily cash flow demands of the entity and conforming to all state and local statutes governing the investment of public funds. Cash is and can be invested by fund and commingled in a common investment portfolio. Municipal corporations are empowered by statute to invest eligible investments enabled by legislation contained in RCW 39.59.020, 35.39.030, 43.84.080, 43.250.040. Investments in Local Government Investment that are in restricted accounts are reported as investments.

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

Custodial credit risk. Custodial credit risk is the risk that in event of a failure of the counterparty to an investment transaction the City would not be able to recover the value of the investment or collateral securities. Of the City's total position of \$51,397,981 in 2017, \$0 is exposed to custodial credit risk because the investments are held by the City's brokerage firm, which is also the counterparty in those particular securities.

B. Investments

Investments Measured at Amortized Cost

As of December 31, 2017, the City had the following cash and investments at amortized cost:

Cash at Amortized Cost	Amortized Cost
FDIC or PDPC insured bank deposits	\$ 6,848,733
Petty Cash on hand	\$ 3,970
Total Cash	\$ 6,852,703

RCW 43.250.040 authorizes the City to invest in the Local Government Investment Pool which is a 2a-7 like pool. The LGIP is comparable to rule 2a-7 money market fund recognized by the Securities and Exchange Commission (17CFR.270.2a-7). Rule 2a-7 funds are limited to high quality obligations with limited maximum and average maturities, the effect of which is to minimize both market and credit risk. Also, the City's Investment Policy addresses specific risk considerations for its cash and investments.

Investments Measured at Fair Value

The City of Anacortes 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.

As of December 31, 2017, the City had the following cash and investments at fair value:

Investments by Fair Value Level	Total	Fair Value Measurement Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
WA State LGIP	\$ 4,052,513.88		\$ 4,052,513.88	
U.S. Treasury bills, notes & bonds	\$ 1,564,309.40		\$ 1,564,309.40	
Municipal Securities	\$ 505,288.00		\$ 505,288.00	
U.S. Government Sponsored Enterprises				
FFCB	\$ -		\$ -	
FHLB	\$ 9,121,165.00		\$ 9,121,165.00	
FHLMC	\$ 243,605.76		\$ 243,605.76	
FNMA	\$ 18,328,775.41		\$ 18,328,775.41	
Other GSE's	\$ 13,627,938.60		\$ 13,627,938.60	
Total Investments by Fair Value Level	\$ 47,443,596.05		\$ 47,443,596.05	

Credit risk. Credit risk is the chance that an issuer will fail to pay principal or interest in a timely manner, or that negative perceptions of the issuer's ability to make these payments will cause the price of the investment to decline. The City's investment policy applies the prudent person standard; Investments will be made with judgment and care, under circumstances then prevailing, which a person of prudence, discretion and intelligence would use in the management of their own affairs, not for speculation, but for investment purposes.

Concentration of Credit Risk. The City diversifies its investments by security type and institution. 100% of the City's portfolio may be invested in US Treasury Notes, Bonds or Certificates, or the State Investment Pool. With the exception of U.S. Treasury securities and authorized pools, the City's investment policy does not allow for an investment in any one issuer that is in excess of 50% of the City's total investment portfolio.

Exposure to Foreign Currency Risk. The City does not invest in any form of foreign currency denomination. While the City does have customers who pay invoices to the city in foreign funds, these transactions are translated and converted into U.S dollars in an amount equal to the original invoice price prior to being received by the City. Accordingly, the City has no exposure to foreign currency risk.

NOTE 4 - CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2017 was as follows:

A. Capital Assets - Governmental Activities

	Balance 1/1/2017	Increases	Decreases	Balance 12/31/2017
Governmental Activities				
<u>Assets not being depreciated</u>				
Land	21,843,936	293,934	288,200	21,849,670
Construction in Progress	1,801,867	1,024,325	1,628,141	1,198,052
Total not being depreciated	23,645,803	1,318,259	1,916,341	23,047,721
<u>Depreciated Assets</u>				
Buildings & Structures	14,314,639	754,453	-	15,069,092
Improvements & Infrastructure	31,678,952	213,486	120	31,892,318
Machinery & Equipment	12,294,275	1,840,815	498,793	13,636,296
Total being depreciated	58,287,866	2,808,754	498,913	60,597,706
<u>Less accumulated depreciation for:</u>				
Buildings & Structures	5,701,633	301,790	-	6,003,424
Improvements & Infrastructure	19,231,651	1,479,132	(14,842)	20,725,625
Machinery & Equipment	6,163,281	896,878	511,108	6,549,050
Total accumulated depreciation	31,096,565	2,677,800	496,266	33,278,099
Total assets being depreciated, net	27,191,301	130,954	2,648	27,319,607
Governmental activities assets, net	50,837,104	1,449,213	1,918,989	50,367,329

B. Capital Assets - Business-Type Activities

	Balance 1/1/2017	Increases	Decreases	Balance 12/31/2017
Business-Type Activities				
<u>Assets not being depreciated</u>				
Land	1,562,195	-	-	1,562,195
Construction in Progress	1,709,587	8,372,568	2,385,275	7,696,880
Total not being depreciated	3,271,782	8,372,568	2,385,275	9,259,075
<u>Depreciated Assets</u>				
Buildings & Structures	69,460,322	-	-	69,460,322
Intangible Assets	450,823	-	-	450,823
Improvements & Infrastructure	111,264,783	3,054,062	1,625,313	112,693,532
Machinery & Equipment	30,968,472	1,294,371	168,307	32,094,535
Total being depreciated	212,144,400	4,348,432	1,793,620	214,699,212
<u>Less accumulated depreciation for:</u>				
Buildings & Structures	9,001,726	1,390,162	-	10,391,888
Intangible Assets	28,763	7,344	-	36,107
Improvements & Infrastructure	41,815,233	2,360,425	183,459	43,992,198
Machinery & Equipment	15,775,683	942,392	165,377	16,552,698
Total being depreciated	66,621,406	4,700,323	348,836	70,972,892
Total assets being depreciated, net	145,522,994	(351,891)	1,444,784	143,726,320
Business-Type activities assets, net	148,794,776	8,020,677	3,830,059	152,985,395

NOTE 4 - CAPITAL ASSETS (Continued)

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

Governmental Activities	
Judicial	\$ 3,702
General Government	\$ 170,404
Public Safety	\$ 413,927
Physical environment	\$ 128,683
Transportation	\$ 279,713
Economic Environment	\$ 586,582
Culture & Recreation	\$ 1,094,788
Total Depreciation - Governmental Activities	<u>\$ 2,677,800</u>

Business Type Activities	
Utilities	<u>\$ 4,700,323</u>
Total Depreciation - Business-Type Activities	<u>\$ 4,700,323</u>

Accumulated depreciation on propriety fund assets at December 31, 2017 is as follows:

	Enterprise Funds	Internal Service Funds	Totals
Buildings & Structures	\$ 10,391,888	423,488	10,815,377
Intangible Assets	36,107		36,107
Improvements & Infrastructure	43,992,198	39,955	44,032,154
Machinery & Equipment	16,552,698	5,472,536	22,025,235
Total	<u>\$ 70,972,892</u>	<u>\$ 5,935,980</u>	<u>\$ 76,908,872</u>

C. Collections Not Capitalized

The City of Anacortes does not capitalize the collections of the Anacortes Museum or the public art located throughout City parks and buildings. In both cases the purpose of the collection is display or research, the collection is being adequately maintained, and any proceeds from the sale of collection items are applied to acquiring new items for the same collection.

D. Impaired Capital Assets

None.

E. Discretely Presented Component Unit(s)

None.

F. Interest Capitalization

During the fiscal year ending December 31, 2017 the City of Anacortes incurred and charged to expense a total of \$2,596,532.06 of interest cost for the Anacortes Water Treatment Plant Improvements (401.711.592.34.80). Of this amount, \$613,196.74 was offset by an ARRA Bond Interest Subsidy (401.730.332.21.20). No interest cost was capitalized.

NOTE 5 - CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS

A. Construction Commitments

The City of Anacortes has active construction projects as of December 31, 2017 that include the following. At year end the City's commitments with contractors are as follows:

Project		Spent to Date	Remaining Commitment
COMPLETE STREETS GRANT PROJECT	TIB #C-W-154/00 17-001-WTR-002	104,875.13 407,503.35	145,124.87 20,043.88
Wastewater Treatment Plant Outfall Repair Design FIBER BUILD PROJECT	13-020-SEW-004 14-056-IDS-001	164,374.06 801,704.01	4,610.74 258,679.19
PURCHASE OF MICRO-DUCT SYSTEM	14-056-IDS-002	283,161.83	15,795.12
FIBER MATERIALS - MICROFIBER	14-056-IDS-004	83,146.86	163,971.56
WWTP Outfall Permit Applications and Acquisition	13-020-SEW-005	4,743.20	58,889.60
WASTEWATER TREATMENT PLANT OUTFALL REPAIR - CONSTRUCTION	13-020-SEW-009	1,620,251.42	78,273.00
32ND STREET AND D AVENUE INTERSECTION IMPROVEMENT DESIGN	16-004-TRN-001	71,609.28	54,535.77
Guemes Channel Trail 30% Design - Phase VI	14-023-TRN-001	64,545.63	41,484.06
Guemes Channel Trail 30% Design - Phase II	14-028-TRN-001	77,932.97	51,984.64
March Point Rd Shoulder Widening	15-006-TRN-002	172,412.71	24,897.29
REPLACE EXISTING WWTP SERIAL RADIO	14-009-IDS-004	59,789.41	110,119.71
TELEMETRY - PHASE B			
WATER TREATMENT PLANT LED LIGHTING	17-065-WTR-001	105,267.66	5,085.39
RETROFIT & UPGRADE PROJECT			
OPERATIONS SHOP REMODEL - ELECTRICAL WORK	16-085-IDS-002	26,850.41	2,149.59
OPERATIONS SHOP REMODEL - FLOORING	16-085-IDS-004	12,903.50	1,310.00
OPERATIONS SHOP REMODEL - HVA	16-085-IDS-005		24,000.00
OPERATIONS SHOP REMODEL - ASBESTOS ABATEMEN	16-085-IDS-007	17,862.00	
AUDIO VISUAL SYSTEM FOR LIBRARY			
COMMUNITY MEETING ROOM	17-109-FAC-001	30,141.97	3,060.10
FLOORING INSTALLATION FOR LIBRARY			
COMMUNITY MEETING ROOM	17-109-FAC-003	5,752.97	
Furnish and Install Traveling Screens at Water Treatment Plant Intake Station	16-042-WTR-001	281,328.60	

Ship Harbor & SR20 Spur Intersection Design REMOVE SEDIMENT FROM WATER TREATMENT PLANT LAGOON 3	16-025-TRN-001 17-098-WTR-001	132,891.73 32,114.27	78,430.40
CATHODIC PROTECTION WATER TRANSMISSION MAIN UPGRADES AND WATER TANK TESTING	17-097-WTR-001	800.00	3,547.40
REBUILD WWTP PUMPS 3153 & 3301 Blue Heron Circle Reservoir Project Design	17-092-SEW-001 16-039-WTR-001	7,022.34 496,676.94	6,002.00 170,077.34
PS15 KSB PUMP 1 & PUMP 3 REBUILD SLURRY SEAL 2017	17-052-SEW-001 17-004-TRN-001	16,072.09 82,393.02	4,336.48 5,907.14
Storm Sewer Pond and Swale Improvements BLUE HERON CIRCLE RESERVOIR PROJECT - CONSTRUCTION MANAGEMENT SERVICES	16-041-TRN-001 16-039-WTR-003	122,277.71 62,915.03	187,019.97
BLUE HERON CIRCLE RESERVOIRS PROJECT - CONSTRUCTION WWTP INCINERATOR AIR DISPERSION MODELING	16-039-WTR-004 17-130-SEW-001	2,304,436.62 4,610.29	1,946,616.80 9,689.71
DEPOT PERFORMANCE STAGE AND MADRONA GROVE ACCESS	17-126-PRK-001	1,520.00	5,795.00
WTP LEAK AND CRACK WATERPROOFING	17-129-WTR-001 17-108-wtr	18,710.07	1,899.50
WASTEWATER TREATMENT PLANT OUTFALL REPAIR - PRELIMINARY WORK	17-077-sew 13-020-SEW-008		5,714.29
Total	inv 1704-01	\$ 7,678,597	\$ 3,489,051

The entire committed balance was budgeted in 2017/18 or before; funding will be rolled into 2018.

B. Other Commitments

At year-end the government's commitments for non-construction contracts are as follows:

Project	Spent to Date	Remaining Commitment
ON-CALL STORMWATER ENGINEERING SERVICES 17-051-PLN-003	44,674.06	5,325.94
INTERLOCAL COOPERATION AGREEMENT: OSP FIIL232	272,923.35	17,747.65

Critical Areas Regulations Update 2016	16-082-IDS-001	32,701.86	8,653.14
Water Transmission Main Rehab Project - Evaluation & 17-007-WTR-001			
CAP SANTE MARINE PROJECT: FENCE INSTALLATI 17-030-PLN-006		13,407.37	6,212.63
Update Zoning, Development and Design Standards for 16-081-IDS-001		22,443.24	
ON-CALL CONSULTANT - STORMWATER COMPLIA 17-009-IDS-001		97,145.29	31,854.71
		3,904.00	16,096.00
WWTP SEWAGE SLUDGE INCINERATOR SCRUBBE 15-032-SEW-002		872,874.60	10,655.16
On Call Professional Services at WWTP	15-009-SEW-001	45,947.05	9,052.95
COS SERVICES FOR FIBER PROJECT	17-114-ADM-001	13,000.00	24,000.00
Annual HVAC Equipment Maintenance, All City Locatio 16-015-IDS-001		30,143.40	27,551.48
CODE COMPLIANT FIRE SPRINKLER SYSTEM REP/ 17-090-FAC-001			6,260.99
LIBRARY SLIDER DOOR REPAIR	17-121-FAC-001	1,654.80	168.00
PILOT-SCALE & FULL-SCALE TESTING FOR WTP FI 17-110-WTR-001		2,222.62	24,777.38
AMBULANCE REMOUNT	17-122-FIR-001		181,299.92
REPLACE HEATING SYSTEM PUMP # 2 VFD @ ANA 17-034-FAC-002		4,604.88	467.50
STREAM BAS REVIEW AND CODE UPDATE RECOM 16-082-IDS-002		12,030.38	1,469.62
Water System Model Update	16-024-WTR-001	9,442.81	19,642.47
ON-CALL ENVIRONMENTAL SERVICES CONSULTAI 17-051-PLN-001		1,520.00	48,480.00
LIBRARY FLOORING REPLACEMENT - CHILDREN'S 17-136-FAC-001		18,964.74	1,925.35
ON-CALL CRITICAL AREAS SITE REVIEWS	17-135-PLN-001	1,115.79	3,884.21
CODIFICATION SERVICES	17-044-LEG-001	2,465.14	1,584.86
PS13 TRANSFER SWITCH REPLACEMENT	17-137-SEW-001	2,833.09	287.62
ELEVATOR OVERSPEED SURGE VALVE TEST	17-138-FAC-001		3,027.15
WWTP MERCURY SCRUBBER SERVICES	17-083-SEW-001	10,714.38	10,714.37
GENERATOR REPAIRS	17-084-ERR-002		26,297.16
GENERATOR 9-902A DISCONNECT INSTALLATION 17-140-ERR-001			15,000.00
Guemes Channel Trail Environmental Compliance Rev 13-016-TRN-004		5,393.50	6,971.30
CITY HALL SEISMIC UPGRADE DESIGN	17-055-IDS-001	6,567.50	2,432.50
ON-CALL ENVIRONMENTAL SERVICES CONSULTAI 17-051-PLN-002			50,000.00
LIBRARY REBRANDING	17-091-LIB-001	4,353.75	2,936.25
ON CALL PROFESSIONAL SERVICES AT WTP	15-010-WTR-001	40,141.06	46,858.94
HEART LAKE WATER QUALITY STUDY	15-06096-000	30,905.59	1,094.41
Annual HVAC Control Systems Maintenance 2016-201: 15-084-IDS-001		18,152.05	11,793.95
Interlocal Agreement regarding Staffing Services for Gr C20160030			3,528.49
WTP CARPETS, WINDOWS, FLOORS AND UPHOLSTERY			135.21

Total	\$	1,622,246	\$	628,187
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The entire committed balance was budgeted in 2017/18 or before; funding will be rolled into 2018.

NOTE 6 - PROPERTY TAXES

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

Property Tax Calendar

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

Property taxes are recorded when levied, offset by deferred inflow. Property tax revenues are recognized when cash is collected. The amount of taxes receivable at year-end that would be collected soon enough to pay liabilities of the current period is immaterial. No allowance for uncollectible taxes is established because delinquent taxes are considered fully collectible.

The City may levy up to \$3.375 per \$1,000 of assessed valuation for general governmental services. Washington State Constitution and Washington State law, RCW 84.55.010, limit the rate.

The City's regular levy for 2017 was \$1.6167 per \$1,000 on an assessed valuation of \$3,042,165,745 for a total regular levy of \$4,918,345.

Special levies approved by the voters are not subject to the limitations listed above. In 2000 the voters approved a Library Bond of \$6,050,000. The levy rate for 2017 was \$0.15716 per \$1,000 on an assessed valuation of \$3,000,817,498 for a total special levy of \$471,617.

NOTE 7 – LEASES

The City of Anacortes is leasing the building serving as the temporary fire station #3 under operating leases. Total cost for this lease was \$ 24,057 for the year ending December 31, 2017. The lease started Aug 1, 2016 and will continue through July 31, 2018. Unless a new lease will be signed before the existing lease expires, the City will then operate on a month to month rental. The commitment for 2018 is:

<u>Year Ending December 31</u>	<u>Amount</u>
2018	\$ 14,315

The City of Anacortes has entered into a non-cancellable aquatic lands lease with Department of Natural Resources (22-A02664) until Jan 2, 1934. The annual rent due is \$ 36,428.56 in 2018 and is inflation adjusted annually pursuant to RCW 79.105.200-.360. City A portion of this land is leased out to R&S Management for \$ 4,871.80 annually. A second portion of this land is leased to Fidalgo Marina Owners Association for \$ 12,115 annually. The lease terms for R&S Management and Fidalgo Marina Owners Association mirror the aquatic DNR lease term and adjustments in rents are tied to DNR inflation adjustments.

<u>Year Ending December 31</u>	<u>Revenues</u>	<u>Expenditures</u>
2019 through 2034	\$ 16,986.80 + inflation adjustment	\$ 36,428.56 + inflation adjustment

The City of Anacortes has another lease with DNR (20-076615) until Aug 31, 2036 for which expenditures are directly billed out to the Port of Anacortes. Lease cost is adjusted by DNR and for 2018 is \$ 3,284.39.

NOTE 8 - LONG-TERM DEBT

LONG TERM DEBT

General Obligation Bonds are a direct obligation of the City for which its full faith and credit are pledged. Debt service is paid from the related Debt Service Funds. Debt service for voter-approved issues is funded by special property tax levies. Debt service for City Council authorized or councilmanic issues is funded from regular property taxes and real estate excise taxes. Revenue Bonds are payable from revenues generated by the Water and Sewer Funds.

State of Washington Public Works Trust Fund Loans are a direct responsibility of the City. Anacortes currently has two such loans, they were obtained to aid in the construction of the water treatment plant, and are being repaid from water revenues. The first was a \$1 million loan obtained in 2010 to aid in the design of the plant. The second loan for the treatment plant was obtained in 2012 for \$10 million.

General Obligation Bonds outstanding at year-end are as follows:

2005 Refunded General Obligation Bonds: Refunded a portion of the voter-approved general obligation bonds for the purpose of constructing and equipping a new public library on the site of the existing library.

2009 Refunded General Obligation Bonds: Issued to re-finance the 1999 GO Bonds by the regular (defeasance) advance refunding method at a lower rate of interest reducing annual debt service payments.

Revenue Bonds outstanding at year-end are as follows:

2007 Water Revenue Bonds: Issued to finance the replacement of segment 5 and 6 from 24" to 36" water transmission line. A portion of the proceeds also used to re-finance 2002 Water Revenue Bonds, and 2003 Water Revenue Bonds. This bond was refunded in December 2017 and no longer has an outstanding balance.

2010 Water Revenue Bonds: Issued to finance the upgrade and expansion of the Water Utility water treatment plant, and related facilities. Proceeds were also used to fund the bond's debt reserve account.

2012 Water Revenue Bonds: Issued to finance the upgrade and expansion of the Water Utility water treatment plant, and related facilities. Proceeds were also used to fund the bond's debt reserve account.

2017 Water Revenue Bonds: Issued to refund the 2007 Water Revenue bonds that were issued to finance the replacement of segment 5 and 6 from 24" to 36" water transmission line.

Bonds, Issuances, Redemptions, and Balances Currently Outstanding

General obligation debt

	Issue Date	Maturity Date	Interest Rate	Original Amount Issued	Redemptions to Date	Amount Outstanding 12/31/17
2009 GO Refunding	9/28/2009	12/1/2018	3.0 to 4.0%	\$1,965,000	1,710,000	\$255,000
2005 GO Refunding	8/8/2005	12/1/2020	3.0 to 4.1%	\$4,360,000	\$3,445,000	\$915,000
				<u>\$6,325,000</u>	<u>\$5,155,000</u>	<u>\$1,170,000</u>

Year Ending	Governmental Activities	
	Principal	Interest
December 31		
2018	705,000	66,420
2019	465,000	38,445
Total	<u>\$1,170,000</u>	<u>\$104,865</u>

Revenue debt

	Issue Date	Maturity Date	Interest Rate	Original Amount Issued	Redemptions to Date	Amount Outstanding 12/31/17
2007 Water Revenue	5/21/2007	12/1/2026	4.0 to 5.5%	13,400,000	13,400,000	0
2010 Water	11/10/2010	12/1/2030	*.98 to 6.47%	44,300,000	12,840,000	31,460,000
2012 Water Revenue	8/15/2012	12/1/2032	3%	12,320,000	2,385,000	9,935,000
2017 Water Revenue	12/28/2017	12/1/2026	1.98%	6,635,000	0	6,635,000
PWFT Loan 2010 Water	10/1/2011	7/1/2029	0.50%	1,000,000	458,333	541,667
PWFT Loan 2012 Water	6/14/2012	6/1/2031	0.50%	10,000,000	2,631,579	7,368,421
				\$87,655,000	\$31,714,912	\$55,940,088

*Reflects net interest yield application of the 35% federal credit payments with respect to the bonds

Year Ending	Business-Type Activities	
	December 31	Principal Interest
2018	3,831,455	2,295,056
2019	3,901,455	2,198,586
2020	3,986,455	2,076,533
2021	4,081,455	1,939,071
2022	4,206,455	1,779,624
2023-2027	21,162,273	6,262,896
2028-2032	14,770,541	1,565,674
Total	\$55,940,088	\$18,117,441

At December 31, 2017, the City has \$15,140 available in debt service funds to service the general bonded debt. Restricted assets in proprietary funds contain \$4,563,610 in sinking funds and reserves as required by bond indentures.

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

NOTE 9 - CHANGES IN LONG TERM LIABILITIES

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

Governmental Activities	Beginning Balance 01/01/17	Additions	Reductions	Ending Balance 12/31/17	Due Within One Year
Bonds payable:					
GO/Special Assessment	\$2,330,000		\$1,160,000	\$1,170,000	\$705,000
Less Issuance Discounts / Premiums	<u>-\$165,190</u>		<u>-\$10,064</u>	<u>-\$155,127</u>	
Total bonds payable	\$2,164,810	\$0	\$1,149,937	\$1,014,874	\$705,000
Firemen's Pension liability	\$425,271		\$6,049	\$419,222	
OPEB Obligation	\$2,559,241	\$411,915		\$2,971,156	
DRS Pension Liability	\$5,409,458	\$142,966		\$5,552,424	
Compensated Absences	<u>\$973,935</u>	<u>\$21,605</u>		<u>\$995,539</u>	<u>\$49,777</u>
Governmental activity long-term liabilities:	\$11,532,715	\$576,485	\$1,155,986	\$10,953,215	\$754,777
Business-Type Activities					
Bonds payable:					
Revenue Bonds	\$51,035,000	\$6,635,000	\$9,640,000	\$48,030,000	\$3,260,000
Less Issuance Premiums	<u>\$443,292</u>	<u>-\$54,574</u>		<u>\$388,718</u>	
Total bonds payable	\$51,478,292	\$6,580,426	\$9,640,000	\$48,418,718	\$3,260,000
DRS Pension Liability	\$4,398,245		\$504,362	\$3,893,883	
Compensated Absences	\$285,622	\$21,324		\$306,946	\$15,347
PWTF/CERB Loans	<u>\$8,481,541</u>		<u>\$571,455</u>	<u>\$7,910,086</u>	<u>\$571,455</u>
Business-type activity long-term liabilities	\$64,643,701	\$6,601,750	\$10,715,817	\$60,529,634	\$3,846,802

Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for them are included as part of the above totals for governmental activities. At year end \$16,412 of internal service funds compensated absences are included in the above amounts. Likewise, there is an additional \$224,086 of internal service funds pension liability. Also, for the governmental activities, claims and judgments and compensated absences are generally liquidated by the general fund.

NOTE 10 – INTERFUND TRANSFERS AND BALANCES

Interfund Transfers

Interfund transfers as of December 31, 2017 were as follows:

	Transfers In	Transfers Out
General Fund	237,627	334,056
Street Maintenance	915,332	
Non Major Governmental	394,360	1,213,263
Total	1,547,319	1,547,319

Interfund transfers are used primarily to move unrestricted revenues to finance various programs that the city must account for in other funds in accordance with budgetary authorizations, such as transfers of Real Estate Excise Taxes.

NOTE 11 – RESTRICTED COMPONENT OF NET POSITION

The government-wide statement of net position reports \$26,817,229 of restricted component of net position, of which \$0 is restricted by enabling legislation and \$26,817,229 is restricted by bond covenants and other contract obligations.

NOTE 12 – RISK MANAGEMENT

The City of Anacortes is exposed to various risks of loss such as natural disasters, property damage, liability, employee dishonesty, and personal injury. In order to mitigate these risks, the City is insured in several categories by various insurers. These risk categories and coverages are described below. There have been no significant reductions or other coverage changes from the prior year. Furthermore, settlements did not exceed insurance coverage during any of the past three years.

Liability Risks

The city of Anacortes 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.

Property Risks

The City is exposed to various risks of loss related to theft of, damage to and destruction of assets. For these risks, the City carries commercial insurance from several different insurers.

Employee Related Risks

For the coverage of risks associated with employees, the City uses both the State of Washington standard employment insurance agencies and commercial insurance policies. The State policies cover the City for the risk of claims against unemployment and injury to the employee. The commercial insurance protects the City against health care costs.

NOTE 13 – CONTINGENCIES AND LITIGATIONS

The City of Anacortes has recorded in its financial statements all material liabilities. In the opinion of management, the City of Anacortes' insurance policies are adequate to pay all known or pending claims.

As discussed in Note 8, Long Term Debt, the City is contingently liable for repayment of refunded debt.

The City of Anacortes 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. The City of Anacortes' management believes that such disallowances, if any, would be immaterial.

There is an old landfill site the City owns which has been closed for over 30 years. The requirement for post remediation monitoring is minimal. The City may incur some liability in the event contamination is discovered, however there is no known litigation at this time. Additionally the City has no pollution remediation obligations as defined in GASB statement No. 49.

In a letter dated January 16, 2018 the City was found to be liable under the Model Toxics Control Act (MTCA) to be a potentially liable person (PLP) for release of hazardous substances at the former Anacortes Water Treatment Plant. Additional information is provided in Note 21, Subsequent Events.

Note 14 – Pension Plans

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

Aggregate Pension Amounts – All Plans	
Pension liabilities	(\$7,641,246)
Pension assets	\$2,602,495
Deferred outflows of resources	\$1,399,418
Deferred inflows of resources	(\$1,805,061)
Pension expense/expenditures	\$750,308

State Sponsored Pension Plans

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

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

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

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

Public Employees' Retirement System (PERS)

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

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

and Industries. PERS 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30, 1977.

Contributions

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

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

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

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

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

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

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

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

Contributions

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

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

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

The City of Anacortes' actual PERS plan contributions were \$499,002 to PERS Plan 1 and \$679,573 to PERS Plan 2/3 for the year ended December 31, 2017.

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

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

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

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

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

Contributions

Starting on July 1, 2000, **LEOFF Plan 1** employers and employees contribute zero percent, as long as the plan remains fully funded. The LEOFF Plan I had no required employer or employee contributions for fiscal year 2017. Employers paid only the administrative expense of 0.18 percent of covered payroll.

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

Contributions

The **LEOFF Plan 2** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2. The employer rate included an administrative expense component set at 0.18 percent. Plan 2 employers and employees are required to pay at the level adopted by the LEOFF Plan 2 Retirement Board. The LEOFF Plan 2 required contribution rates (expressed as a percentage of covered payroll) for 2017 were as follows:

LEOFF Plan 2		
Actual Contribution Rates	Employer	Employee
January – June 2017:		
State and local governments	5.05%	8.41%
Administrative Fee	0.18%	
Total	5.23%	8.41%
Ports and Universities	8.41%	8.41%
Administrative Fee	0.18%	
Total	8.59%	8.41%
July – December 2017:		
State and local governments	5.25%	8.75%
Administrative Fee	0.18%	
Total	5.43%	8.75%

Ports and Universities	8.75%	8.75%
Administrative Fee	0.18%	
Total	8.93%	8.75%

The City of Anacortes' actual contributions to the plan were \$253,071 for the year ended December 31, 2017.

The Legislature, by means of a special funding arrangement, appropriates money from the state General Fund to supplement the current service liability and fund the prior service costs of Plan 2 in accordance with the recommendations of the Pension Funding Council and the LEOFF Plan 2 Retirement Board. This special funding situation is not mandated by the state constitution and could be changed by statute. For the state fiscal year ending June 30, 2017, the state contributed \$62,155,262 to LEOFF Plan 2. The amount recognized by the City of Anacortes as its proportionate share of this amount is \$2,139,727.

Actuarial Assumptions

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

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

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

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

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

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

Discount Rate

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

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

Long-Term Expected Rate of Return

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

Estimated Rates of Return by Asset Class

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

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

Sensitivity of the Net Pension Liability/(Asset)

The table below presents the City of Anacortes' proportionate share* of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the City of Anacortes' 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	\$4,568,433	\$3,750,177	\$3,041,393
PERS 2/3	\$9,353,518	\$3,471,847	(\$1,347,311)
LEOFF 1	(\$327,835)	(\$441,966)	(\$539,979)
LEOFF 2	\$463,034	(\$2,139,727)	(\$4,260,348)

The table below presents the City of Anacortes' proportionate share of the net pension liability calculated using the discount rate of 3.50 percent, as well as what the City of Anacortes' proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (2.50 percent) or 1-percentage point higher (4.50 percent) than the current rate.

	1% Decrease (2.50%)	Current Discount Rate (3.50%)	1% Increase (4.50%)
Firemen's Pension Fund	\$486,886	\$419,222	\$361,230

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 of Anacortes reported a total pension liability of \$7,641,246 and total pension assets of \$2,602,495 for its proportionate share of the net pension liabilities as follows:

	Liability (or Asset)
PERS 1	(\$3,750,177)
PERS 2/3	(\$3,471,847)
LEOFF 1	\$441,966
LEOFF 2	\$2,139,727
VFFRPF	\$20,802
FIREMEN'S PENSION FUND (12/31/17)	(\$419,222)

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

	LEOFF 1 Asset	LEOFF 2 Asset
Employer's proportionate share	\$441,966	\$2,139,727
State's proportionate share of the net pension asset associated with the employer	\$2,989,448	\$1,388,001
TOTAL	\$3,431,414	\$3,527,728

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

	Proportionate Share 6/30/16	Proportionate Share 6/30/17	Change in Proportion
PERS 1	0.078458%	0.079033%	0.000575%
PERS 2/3	0.098829%	0.099923%	0.001094%
LEOFF 1	0.028612%	0.029130%	0.000518%
LEOFF 2	0.158845%	0.154195%	(0.004650%)
VFFRPF	0.04%	0.06%	0.02%

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

LEOFF Plan 1 allocation percentages are based on the total historical employer contributions to LEOFF 1 from 1971 through 2000 and the retirement benefit payments in fiscal year 2017. Historical data was obtained from a 2011 study by the Office of the State Actuary (OSA). In fiscal year 2017, the state of Washington contributed 87.12 percent of LEOFF 1 employer contributions and all other employers contributed the remaining 12.88 percent of employer contributions. LEOFF 1 is fully funded and no further employer contributions have been required since June 2000. If the plan becomes underfunded, funding of the remaining liability will require new legislation. The allocation method the plan chose reflects the projected long-term contribution effort based on historical data.

In fiscal year 2017, the state of Washington contributed 39.35 percent of LEOFF 2 employer contributions pursuant to [RCW 41.26.725](#) and all other employers contributed the remaining 60.65 percent of employer contributions.

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

Pension Expense

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

	Pension Expense
PERS 1	\$258,054
PERS 2/3	\$518,294
LEOFF 1	(\$76,147)
LEOFF 2	\$70,175
VFFRPF	(\$14,018)
FIREMEN'S PENSION FUND	(\$6,049)
TOTAL	\$750,308

Deferred Outflows of Resources and Deferred Inflows of Resources

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

PERS 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$	\$
Net difference between projected and actual investment earnings on pension plan investments	\$	(\$139,946)
Changes of assumptions	\$	\$
Changes in proportion and differences between contributions and proportionate share of contributions	\$	\$
Contributions subsequent to the measurement date	\$257,804	\$
TOTAL	\$257,804	(\$139,946)

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

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$351,780	(\$114,183)
Net difference between projected and actual investment earnings on pension plan investments	\$	(\$925,511)
Changes of assumptions	\$36,878	\$
Changes in proportion and differences between contributions and proportionate share of contributions	\$114,995	\$
Contributions subsequent to the measurement date	\$369,928	\$
TOTAL	\$873,581	(\$1,039,694)

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

LEOFF 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$	\$
Net difference between projected and actual investment earnings on pension plan investments	\$	(\$41,069)
Changes of assumptions	\$	\$
Changes in proportion and differences between contributions and proportionate share of contributions	\$	\$
Contributions subsequent to the measurement date		\$
TOTAL	\$0	(\$41,069)

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

LEOFF 2	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$94,045	(\$81,142)
Net difference between projected and actual investment earnings on pension plan investments	\$	(\$480,384)
Changes of assumptions	\$2,577	\$
Changes in proportion and differences between contributions and proportionate share of contributions	\$36,745	(\$22,826)
Contributions subsequent to the measurement date	\$134,667	\$
TOTAL	\$268,033	(\$584,352)

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

PERS 1, PERS 2/3, LEOFF 1, and LEOFF 2	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$445,825	(\$195,325)
Net difference between projected and actual investment earnings on pension plan investments	\$	(\$1,586,910)
Changes of assumptions	\$39,454	\$
Changes in proportion and differences between contributions and proportionate share of contributions	\$151,740	(\$22,826)
Contributions subsequent to the measurement date	\$762,399	\$
TOTAL	\$1,399,418	(\$1,805,061)

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

Year ended December 31:	PERS 1
2018	(\$94,595)
2019	\$29,865
2020	(\$6,934)
2021	(\$68,282)
2022	\$0
Thereafter	\$0

Year ended December 31:	PERS 2/3
2018	(\$322,104)
2019	\$134,756
2020	(\$69,483)
2021	(\$365,852)
2022	\$37,670
Thereafter	\$48,972

Year ended December 31:	LEOFF 1
2018	(\$25,774)
2019	\$6,951
2020	(\$2,776)
2021	(\$19,470)
2022	\$0
Thereafter	\$0

Year ended December 31:	LEOFF 2
2018	(\$223,985)
2019	\$46,683
2020	(\$36,268)
2021	(\$211,513)
2022	(\$4,625)
Thereafter	(\$21,276)

Volunteer Fire Fighters’ and Reserve Officers’ Relief and Pension Fund (VFFRPF)

VFFRPF is a cost-sharing, multiple-employer defined benefit plan administered by the State Board for Volunteer Fire Fighters and Reserve Officers. The Board is appointed by the Governor and is comprised of five members of fire departments covered by [Chapter 41.24 RCW](#). Administration costs of the VFFRPF are funded through legislative appropriation. Approximately 450 local governments, consisting of fire departments, emergency medical service districts and law enforcement agencies, contribute to the plan. In addition, the state contributes 40 percent of the fire insurance premium tax. Retirement benefits are established in [Chapter 41.24 RCW](#) and may be amended only the Legislature.

The VFFRPF plan does not issue a stand-alone financial report, but is included in the comprehensive annual financial report (CAFR) of the State of Washington. The State CAFR may be downloaded from the Office of Financial Management (OFM) website at www.ofm.wa.gov.

Membership in the VFFRPF includes volunteer firefighters, emergency medical technicians, and commissioned reserve law enforcement officers of participating employers. After 25 years of active membership, members having reached the age of 65 and who have paid their annual retirement fee for 25 years are entitled to receive a monthly benefit of \$50 plus \$10 per year of service, for a maximum monthly benefit of \$300. Reduced pensions are available for members under the age of 65 or with less than 25 years of service.

Members are vested after ten years of service. The VFFRPF members earn no interest on contributions and may elect to withdraw their contributions upon termination. Death and active duty disability benefits are provided at no cost to the member. Death benefits in the line of duty consist of a lump sum of \$214,000 and funeral and burial expenses of \$2,000. Members receiving disability benefits at the time of death shall be paid \$500.

Contributions

Contribution rates for emergency medical service districts (EMSD) and law enforcement agencies are set each year by the Board based on the actual cost of participation as determined by the Office of the State Actuary. All other contribution rates are set by the Legislature. Municipalities may opt to pay the member's fee on their behalf.

The contribution rates for 2017 were as follows:

VFFRPF		
	Firefighters	EMSD and Reserve Officers
Municipality fee	\$30	\$105
Member fee	\$30	\$30

The City of Anacortes' actual contributions to the plan were \$750 for the year ended December 31, 2017. The City of Anacortes has opted to pay members' fees on their behalf. There were 7 member contributions for the year ended December 31, 2017.

In accordance with Chapter 41.24 RCW, the state contributes 40 percent of the fire insurance premium tax to the plan. For fiscal year 2017, the fire insurance premium tax contribution was \$6.6 million.

Actuarial Assumptions

The total pension asset for the VFFRPF was determined by an actuarial valuation by the Office of the State Actuary (OSA) as of June 30, 2016, and rolled forward to June 30, 2017, using the following actuarial assumptions, applied to all prior periods included in the measurement:

- **Inflation:** 2.75%
- **Salary increases:** N/A
- **Investment rate of return:** 7.0%

The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) *2007-2012 Experience Study*. Additional assumptions for subsequent events and law changes are current as of the 2016 valuation report.

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 their lifetime.

Discount Rate

The discount rate used to measure the total VFFRPF pension asset was 7 percent. To determine that rate, an asset sufficiency test was completed to test whether the pension plan's fiduciary net position was sufficient to make all projected future benefit payments of current plan members. Consistent with current law, the completed asset sufficiency test included as assumed 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 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members, municipalities, and the state will be made at the current contribution rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members.

Long-Term Expected Rate of Return

The long-term expected rate of return on the VFFRPF pension plan investments of 7 percent was determined using a building-block-method. In selecting this assumption, the Office of the State Actuary (OSA) reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered capital market assumptions and simulated expected investment returns provided by the Washington State Investment Board (WSIB). The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns over various time horizons.

Estimated Rates of Return by Asset Class

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

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

Sensitivity of the Net Pension Asset

The following presents the City of Anacortes' proportionate share of the VFFRPF net pension asset calculated using the discount rate of 7 percent, as well as what the City of Anacortes' proportionate share of the net pension asset would be if it were calculated using a discount rate that is 1-percentage point lower (6 percent) or 1-percentage point higher (8 percent) than the current rate.

	1% Decrease (6.0%)	Current Discount Rate (7.0%)	1% Increase (8.0%)
VFFRPF	(\$8,336)	(\$22,260)	(\$34,296)

Pension Plan Fiduciary Net Position

Detailed information about the VFFRPF plan's fiduciary net position is available in the separately issued State of Washington CAFR.

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

At June 30, 2017, the City of Anacortes reported an asset of \$20,802 for its proportionate share of the VFFRPF plan's net pension asset. The City of Anacortes' proportion of the net pension asset was based on actual contributions to the plan relative to total contributions of all participating municipalities. At June 30, 2017, the City of Anacortes' proportion was 0.06%.

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

For the year ended December 31, 2017, the City of Anacortes recognized pension expense of \$150. Deferred outflows of resources and deferred inflows of resources are not material to the VFFRPF plan.

NOTE 15 - POSTRETIREMENT BENEFITS OTHER THAN PENSION BENEFIT

In addition to the pension benefits described in Note 14, the City of Anacortes provides postretirement health care benefits, in accordance RCW 41.26.150 to retired LEOFF I employees.

Plan Description: The City reimburses 100 percent of the amount of validated claims for medical, prescription, vision, and hospitalization costs incurred by pre-Medicare retirees not covered by insurance. The City provides up to \$2,000 toward dental procedures each year as established by the Skagit County Disability Board. Currently, fourteen retirees meet the eligibility requirements. The City also reimburses a fixed monthly amount of \$104.90 for Medicare insurance premiums for Leoff 1 retirees enrolled in Medicare parts A & B.

Funding Policy: Employer contributions are financed by monthly contributions from the General Fund expenditure account to the Interfund Medical Insurance premium revenue account to cover premiums on a pay-as-you-go basis. The City pays the insurance premiums for Leoff 1 Retirees for the AWC Regence Plan A medical coverage through the AWC Trust (which does not include preventative care). The City pays the lower Leoff 1 Retiree AWC insurance premium rate for those enrolled in Medicare Parts A & B. In addition, the City pays premiums for long-term care insurance. Insurance and prescription co-pays, including vision and dental are reimbursed in accordance by the Skagit County Disability Board Rules. Expenditures for post-retirement uninsured portions of medical, hospitalization, vision, and dental care coverage are recognized as retirees report claims. During the year, expenditures of \$42,578 were recognized for post-retirement health care other than insurance premiums paid to AWC as described below. No contribution is required from retired beneficiaries or active members.

Other than what is noted above, the City does not provide post-retirement healthcare benefits to any other retirees except those mandated by the Consolidated Omnibus Budget Reconciliation Act (COBRA). The requirements established by COBRA are fully funded by employees who elect coverage under the Act, and no direct costs are incurred by the City.

Annual OPEB Cost and Net OPEB Obligation: The City's annual other post-employment benefit (OPEB) cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed twenty years as of January 1, 1999. The following table shows the components for the City's annual OPEB costs for 2016, the amounts actually contributed to the plans, and the change in the City's net OPEB obligation. The net OPEB obligation of \$2,971,156 is included as a non-current liability on the Statement of Net Assets.

Annual Required Contribution	\$721,857
Interest on Net OPEB Obligation	102,370
Adjustment to annual required contribution	-230,181
Annual OPEB cost	594,046
Contributions Made	182,130
Increase in Net OPEB Obligation	411,916
Net OPEB Obligation – Beginning of 2017	2,559,241
Net OPEB Obligation – End of 2017	2,971,157

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation (asset) are detailed below.

Fiscal Year Ended	Annual OPEB Cost	Contribution as a Percentage of OPEB Cost	Net OPEB Obligation
12/31/2008	\$553,830	47.3%	\$291,316
12/31/2009	546,058	48.6	571,983
12/31/2010	515,692	59.6	780,290

12/31/2011	527,113	62.8	976,262
12/31/2012	452,838	80.2	1,072,663
12/31/2013	632,609	39.9	1,452,984
12/31/2014	590,896	39.8	1,808,791
12/31/2015	642,913	35.1	2,226,306
12/31/2016	652,018	38.4	2,559,241
12/31/2017	594,045	30.7	2,971,157

Funded Status and Funding Progress: The City implemented the new GASB Statement 45 in 2008 and is required to determine costs every three years. As of December 31, 2017, the plan was 0% funded. The accrued liability for benefits was \$7,778,764 and the actuarial value of the assets was \$0, resulting in an Unfunded Actuarial Accrued Liability (UAAL) of \$7,778,764.

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

Actuarial Methods and Assumptions: We have used the alternative measurement method permitted under GASB Statement No. 45. A single retirement age of 55.3 was assumed for all active members for the purpose of determining the actuarial accrued liability and normal cost. Retirement, disablement, termination, and mortality rates were assumed to follow the LEOFF 1 rates used in the June 30, 2014 actuarial valuation report issued by the Office of the State Actuary (OSA). Healthcare costs and trends were determined by Milliman and used by OSA in the state-wide LEOFF 1 medical study performed in 2013. The results were based on grouped data with 4 active groupings and 4 inactive groupings. The actuarial cost method used to determine the actuarial accrued liability was Projected Unit Credit. The AAL and NOO are amortized on an open basis as a level dollar over 15 years. These assumptions are individually and collectively reasonable for the purposes of this valuation.

The City is a participating Employer in the Association of Washington Cities Employee Benefit Trust.

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 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 nature of the medical and other benefit 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 1-800-562-8981.

Funding Policy. The Trust provides that contribution requirements of Participating Employer and of 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 contribute the following monthly amounts:

AWC HealthFirst® 1000

\$734.37 for non-Medicare enrolled retiree coverage

\$740.78 for non-Medicare enrolled spouse coverage

AWC HealthFirst® 2500

\$641.21 for non-Medicare enrolled retiree coverage

\$645.87 for non-Medicare enrolled spouse coverage

Medicare Advantage Plan (non-LEOFF I)

\$395.23 for Medicare enrolled retiree coverage

\$395.23 for Medicare enrolled spouse coverage

Participating Employers are not contractually required to contribute an assessed rate each year by the Trust for the non-LEOFF I retirees. The retiree pays for 100% of the premium. The City's

contributions to the Trust for the year ended December 31, 2017, was \$139,552, which equaled the required contribution of that year and 150 percent of covered payroll.

NOTE 16 – DEFINED BENEFIT PENSION PLAN

Plan Description

The City is the administrator of a single employer defined benefit pension retirement system called Firemen's Pension Fund. The City is in compliance with the requirements of the Revised Code of Washington (RCW) 41.18, and 41.16.

This system is a closed system in that membership is limited to firemen employed prior to March 1, 1970. As the City has no active members hired prior to March 1, 1970, nor any retirees or survivors who retired prior to March 1, 1970, the entire firefighters' pension obligation is for the class of retirees since March 1, 1970. This latter class is mainly covered by LEOFF. Generally benefits under the LEOFF retirement benefit systems are greater than or equal to the retirement benefits under the prior system when payment begins. However, LEOFF retirement benefits increase with the CPI (Seattle) while some City benefits increase with wages of current active members. If wages go up faster than the CPI, the City becomes liable for this residual amount. It is expected that wage increases will continue to outpace CPI increases which will result in a growing liability in future years. As of December 31, 2017 there were a total of 4 individuals covered by this system. 2 pensioners are receiving residual benefits from this system to supplement their benefits provided by the LEOFF system. 2 other retirees are entitled to partial retirement benefits should the benefits under this system ever exceed the benefits provided to them by the LEOFF system. None of the members of this system remain in active employment.

The City is required to contribute funding necessary to provide benefits for years firefighters served prior to the establishment of the LEOFF system, as described above. The City is authorized to impose property tax levies up to \$0.45 per \$1,000 of assessed valuation for (2 separate levies at \$0.225 per \$1,000, as outlined in RCW 41.16.060) to fund the Fire Pension System, or for any other use (see RCW 41.16.060). Both of these levies are incorporated into the City's annual property tax levy.

The plan is administered by a five member board as authorized in RCW 41.16.020 which consists of the Mayor who is chair of the board, the City Clerk, a City Council member who is the Council Finance Committee Chair, and two regularly employed firefighters.

Plan funds are invested per the City's investment policy; like other City funds, plan funds are comingled with other City funds and invested in instruments allowable per state law and City policy. See Note 3 for additional information on City investments.

Net Pension Liability

The components of the net pension liability of the Firemen's Pension Trust Fund at December 31, 2017, as actuarially determined and exclusive of costs payable under the LEOFF system, were as follows:

Total Pension Liability	\$ 625,822
Fiduciary Net Position	<u>(206,600)</u>
Net Pension Liability	\$ 419,222
Fiduciary net position as a % of total pension liability:	33.01%

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of the valuation date, calculated based on the discount rate and actuarial assumptions below, and was then projected forward to the measurement date. Any significant changes during this period have been reflected as prescribed by GASB 67.

Discount Rate	3.5%
Long-term expected rate of return, (net of investment expense):	3.5%
Municipal bond rate:	3.5%

Valuation Date: January 1, 2018

Measurement Date: December 31, 2017

Inflation: 2.25%

Salary increases including inflation: 3.25%

Mortality: RP-2000 Mortality Table (combined healthy), with generational projection using 100% of Projection Scale BB, with ages set back one year for males and forward one year for females (set forward two years for disabled members).

Actuarial Cost Method: Entry Age Normal

Sensitivity Analysis

The following presents the net pension liability of the City, calculated using the discount rate of 3.5%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.5%) or 1 percentage point higher (4.5%) than the current rate.

	1% Decrease	Current Discount Rate	1% Increase
	2.50%	3.50%	4.50%
Total pension liability	693,486	625,822	567,830
Fiduciary net position	206,600	206,600	206,600
Net pension liability	486,886	419,222	361,230

The most recent actuarial study of the system was done by Milliman Financial Reporting as of January 1, 2018 valuation date, and December 31, 2017 measurement date. The discount rate has been updated to 3.5% which is an appropriate long-term expected rate of return on investments such as those in the City's trust. The Bond Buyer General Obligation 20-bond municipal bond index for bonds that mature in 20 years is 3.44% as of December 31, 2017. Rounding this to the nearest 1/4% results in a discount rate of 3.5%. Using 3.5% for both the long-term expected rate of return and the bond index will mean that 3.5% could be used as the single discount rate. This will need to be re-evaluated as of later valuation dates.

The City is on a pay-as-you-go plan. Inflows are expected to remain comparable to prior years; outflows may vary depending on participation. Benefits are projected to be paid until 2047.

NOTE 17 – HEALTH & WELFARE

The City of Anacortes 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.

NOTE 18 – ACCOUNTING AND REPORTING CHANGES

In fiscal year 2017 the special revenue Fund 180, Economic Development, was closed due to the low level of activity in the fund, and all resources and liabilities were transferred to the General Fund. The transfer activity is recorded in Note 10, interfund transfers and balances.

NOTE 19 – VIOLATION OF FINANCE-RELATED LEGAL and CONTRACTUAL PROVISIONS

There have been no material violations of finance related legal or contractual provisions of the City.

There were four funds that ended the calendar year 2017 with expenditures that exceeded budget; the Library Fund, the Transportation Benefit District (TBD) Fund, the Tourism Fund, and the Wastewater Fund.

The Library fund exceeded budget authority by \$1,310, and was a result primarily of aggressive salary budgeting to try and contain fund expenditures. The overage is equivalent to .9% (9/10ths of a percent), and is a de minimis and not material amount. It is noted the Library fund added \$11,997 to fund balance in 2017.

The TBD fund exceeded its budget authority by \$46 and is the result of paying an unbudgeted insurance policy. The overage is equivalent to .1% (1/10ths of a percent), and is a de minimis and not material amount.

The Tourism fund exceeded its budget authority by \$1,305 and is the result of paying an invoice for Lodging Tax use by an approved applicant after the year end deadline from the prior year, for which a rollover budget amendment was not enacted. The overage is equivalent to .4% (4/10ths of a percent), and is a de minimis and not material amount.

The Wastewater fund exceeded budget authority by \$236,566. This was the result of a payment made for the Sewer Outfall Capital project after year end during the open accrual period. The bid for the project exceeded preliminary budget for the project which was set in mid 2016. A budget amendment was not made, as other capital project under runs that were anticipated, but did not materialize. The overage is equivalent to 2.8%, and is not material amount to the budget or the fund.

NOTE 20 – PRIOR PERIOD ADJUSTMENTS

After reconciliation of accumulated depreciation of Sewer infrastructure assets, we have corrected some depreciation balances. This amount was \$115,681.16, and is reported as a prior period adjustment in the Sewer fund on the Statement of Revenues, Expenses, and Changes in Net Position for the Proprietary funds.

After reconciliation of accumulated depreciation of general fund infrastructure assets, we have corrected some depreciation balances. This amount was \$14,842.31, and is reported as a prior period adjustment on the Statement of Activities.

NOTE 21 – SUBSEQUENT EVENTS

On January 18, 2018, the City of Anacortes received a letter from the Washington State Department of Ecology naming the City of Anacortes as a “Potentially Liable Person” (PLP) under the Model Toxics Control Act (MTCA) for the release of hazardous substances at the Anacortes Former Water Treatment Plant (site). The City will continue to work with Ecology in the cleanup effort, and this may trigger GASB 49 reporting requirements for fiscal year 2018. No funds have been spent on the cleanup effort to date, other than attorney and consultant fees.

The City initiated public information dissemination in early 2017 when it learned through preliminary testing at the site that potentially hazardous materials might be in place. At that time the website safeandcleanwater.com was established, and continues to be a good a source of information for this issue.

This issue was first reported in the City’s FY 2017 Financial Statements in Note 21, Subsequent Events.

City of Anacortes
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget to Actual (GAAP Basis)
For the Year Ended December 31, 2017

	Combined General Fund				Street Maintenance Fund 104				Ambulance Service Fund 110			
	Budgeted Amounts		Variance With		Budgeted Amounts		Variance With		Budgeted Amounts		Variance With	
	Original	Final	Actual	Final Budget Over/(Under)	Original	Final	Actual	Final Budget Over/(Under)	Original	Final	Actual	Final Budget Over/(Under)
REVENUES												
Taxes:												
Property	3,697,724	3,750,724	3,760,064	9,340	666,113	666,113	677,526	11,413	118,632	65,632	121,996	56,364
Sales	4,639,033	4,639,033	4,963,861	324,828	-	-	-	-	506,805	506,805	545,078	38,273
Utility	3,872,286	3,872,286	3,734,156	(138,129)	229,631	229,631	284,382	54,751	-	-	-	-
Other	595,178	630,178	643,945	13,767	356,346	356,346	374,998	18,652	-	-	-	-
Licenses and permits	956,565	956,565	1,348,690	392,126	7,580	7,580	15,051	7,471	-	-	-	-
Intergovernmental	466,241	958,941	1,307,499	348,558	175,286	94,010	126,475	32,465	857,318	857,318	847,103	(10,215)
Charge for services	1,353,799	1,435,299	1,508,494	73,195	-	-	21,015	21,015	901,859	954,859	919,645	(35,215)
Fines and forfeitures	211,188	211,188	179,642	(31,546)	-	-	6,599	6,599	-	-	-	-
Investment income	70,167	70,167	75,477	5,310	-	-	415	415	-	-	1,431	1,431
Other revenue	73,746	93,746	264,252	170,506	-	-	-	-	-	37,000	36,500	(500)
Total Revenues	15,935,927	16,618,127	17,786,080	1,167,954	1,434,956	1,353,680	1,506,461	152,781	2,384,614	2,421,614	2,471,753	50,139
EXPENDITURES												
Current:												
Judicial	640,698	640,698	649,843	9,145	-	-	-	-	-	-	-	-
General government	3,713,585	3,790,085	2,052,473	(1,737,612)	-	-	-	-	-	-	-	-
Public safety	7,318,949	7,419,948	7,337,003	(82,945)	-	-	-	-	2,384,614	2,420,114	2,395,902	(24,212)
Physical environment	337,872	358,872	349,848	(9,024)	-	-	-	-	-	-	-	-
Transportation	63,729	63,729	70,220	6,492	2,184,013	2,492,013	2,460,464	(31,548)	-	-	-	-
Social Services	124,500	154,500	86,785	(67,715)	-	-	-	-	-	-	-	-
Economic environment	1,073,111	1,327,811	1,266,146	(61,665)	-	-	-	-	-	-	-	-
Culture and recreation	3,867,915	4,110,115	3,929,886	(180,228)	-	-	-	-	-	-	-	-
Capital outlay	265,855	856,855	685,227	(171,628)	-	-	-	-	-	41,000	39,748	(1,252)
Debt service:												
Principal	-	-	-	-	-	-	-	-	-	-	-	-
Interest and debt issue costs	-	-	-	-	-	-	-	-	-	-	-	-
Total Expenditures	17,406,213	18,722,612	16,427,432	(2,295,180)	2,184,013	2,492,013	2,460,464	(31,548)	2,384,614	2,461,114	2,435,650	(25,464)
Excess (deficiency) of revenues over (under) expenditures	(1,470,287)	(2,104,486)	1,358,648	3,463,134	(749,056)	(1,138,332)	(954,003)	184,329	0	(39,500)	36,103	75,603
OTHER FINANCING SOURCES (USES)												
Transfers in	738,656	654,893	187,703	(467,190)	749,056	1,138,332	915,332	(223,000)	-	-	-	-
Transfers out	(459,056)	(334,056)	(334,056)	0	-	-	-	-	-	-	-	-
Refunding debt proceeds	-	-	-	-	-	-	-	-	-	-	-	-
Use of refunding debt proceeds	-	-	-	-	-	-	-	-	-	-	-	-
Capital Leases	-	-	-	-	-	-	-	-	-	-	-	-
Disposition of capital assets	-	-	1,177	1,177	-	-	-	-	-	-	-	-
Total other financing sources (uses)	279,599	320,836	(145,176)	(466,012)	749,056	1,138,332	915,332	(223,000)	-	-	-	-
Net change in fund balances	(1,190,687)	(1,783,649)	1,213,472	2,997,122	-	-	(38,671)	(38,671)	0	(39,500)	36,103	75,603
Fund Balances - January 1	7,230,341	7,230,341	7,230,341		344,764	344,764	344,764		462,025	462,025	462,025	
Fund Balances - December 31	6,039,654	5,446,692	8,443,813		344,764	344,764	306,093		462,025	422,525	498,128	

The City budgets certain funds as Special Revenue Funds for budgetary control purposes which are included in the General Fund for GAAP reporting purposes. The difference between this statement and our budget documents is highlighted by including the budget basis comparison schedules for those funds included in General Fund for GAAP reporting purposes.

The accompanying notes are an integral part of this statement

City of Anacortes
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget to Actual (Budget Basis)
For the Year Ended December 31, 2017

	General Fund (001)				Parks & Recreation Fund (101)				Grandview Cemetery Fund (102)			
	Budgeted Amounts		Actual Amounts		Budgeted Amounts		Actual Amounts		Budgeted Amounts		Actual Amounts	
	Original	Final	Original	Final	Original	Final	Original	Final	Original	Final	Original	Final
REVENUES												
Taxes:												
Property	715,153	768,153	726,634	(41,519)	1,489,895	1,489,895	1,515,516	25,621	172,655	172,655	175,473	2,818
Sales	4,639,033	4,639,033	4,963,861	324,828	-	-	-	-	-	-	-	-
Utility	3,872,286	3,872,286	3,734,156	(138,129)	-	-	-	-	-	-	-	-
Other	296,122	296,122	308,553	12,431	-	-	-	-	-	-	-	-
Licenses and permits	950,694	950,694	1,343,803	393,110	5,871	5,871	4,887	(984)	-	-	-	-
Intergovernmental	451,927	944,627	1,188,143	243,516	-	-	72,240	72,240	-	-	-	-
Charge for services	788,716	838,716	920,663	81,947	160,722	160,722	124,770	(35,952)	47,460	47,460	67,820	20,360
Fines and forfeitures	211,188	211,188	179,642	(31,546)	-	-	-	-	-	-	-	-
Investment income	43,119	43,119	65,773	22,654	1,710	1,710	2,957	1,247	1,009	1,009	896	(113)
Other revenue	72,246	92,246	257,565	165,319	-	-	-	-	-	-	-	-
Total Revenues	12,040,483	12,656,183	13,688,795	1,032,612	1,658,199	1,658,199	1,720,370	62,172	221,125	221,125	244,189	23,064
EXPENDITURES												
Current:												
Judicial	640,698	640,698	649,843	9,145	-	-	-	-	-	-	-	-
General government	3,713,585	3,790,085	2,052,473	(1,737,612)	-	-	-	-	-	-	-	-
Public safety	7,318,949	7,419,948	7,337,003	(82,945)	-	-	-	-	-	-	-	-
Physical environment	121,747	127,747	121,843	(5,904)	-	-	-	-	216,125	231,125	228,005	(3,120)
Transportation	63,729	63,729	70,174	6,445	-	-	-	-	-	-	-	-
Social Services	124,500	154,500	86,785	(67,715)	-	-	-	-	-	-	-	-
Economic environment	1,073,111	1,327,811	1,266,146	(61,665)	-	-	-	-	-	-	-	-
Culture and recreation	522,110	522,110	520,120	(2,089)	1,658,199	1,699,199	1,617,777	(81,422)	-	-	-	-
Capital outlay	260,855	791,355	624,809	(166,546)	-	-	-	-	5,000	5,000	-	(5,000)
Debt service:												
Principal	-	-	-	-	-	-	-	-	-	-	-	-
Interest and debt issue costs	-	-	-	-	-	-	-	-	-	-	-	-
Total Expenditures	13,839,284	14,837,983	12,729,096	(2,108,887)	1,658,199	1,699,199	1,617,777	(81,422)	221,125	236,125	228,005	(8,120)
Excess (deficiency) of revenues over (under) expenditures	(1,798,801)	(2,181,800)	959,699	3,141,498	0	(41,000)	102,594	143,594	0	(15,000)	16,184	31,184
OTHER FINANCING SOURCES (USES)												
Transfers in	738,656	654,893	187,703	(467,190)	-	-	-	-	-	-	-	-
Transfers out	(160,000)	-	-	-	-	-	-	-	-	-	-	-
Refunding debt proceeds	-	-	-	-	-	-	-	-	-	-	-	-
Use of refunding debt proceeds	-	-	-	-	-	-	-	-	-	-	-	-
Capital Leases	-	-	-	-	-	-	-	-	-	-	-	-
Disposition of capital assets	-	-	1,157	1,157	-	-	-	-	-	-	-	-
Total other financing sources (uses)	578,656	654,893	188,860	(466,033)	-	-	-	-	-	-	-	-
Net change in fund balances	(1,220,145)	(1,526,907)	1,148,558	2,675,465	0	(41,000)	102,594	143,594	0	(15,000)	16,184	31,184
Fund Balances - January 1	6,365,109	6,365,109	6,365,109		242,223	242,223	242,223		96,004	96,004	96,004	
Fund Balances - December 31	5,144,964	4,838,202	7,513,667		242,223	201,223	344,817		96,004	81,004	112,188	

The City budgets certain funds as Special Revenue Funds for budgetary control purposes which are included in the General Fund for GAAP reporting purposes. This statement highlights some those differences.
The accompanying notes are an integral part of this statement

City of Anacortes
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget to Actual (Budget Basis)
For the Year Ended December 31, 2017

	Public Library Fund (103)				TBD (106)				Washington Park Fund (107)			
	Budgeted Amounts		Actual Amounts		Budgeted Amounts		Actual Amounts		Budgeted Amounts		Actual Amounts	
	Original	Final	Original	Final	Original	Final	Original	Final	Original	Final	Original	Final
REVENUES												
Taxes:												
Property	1,320,021	1,320,021	1,342,441		-	-	-	-	-	-	-	-
Sales	-	-	-	-	-	-	-	-	-	-	-	-
Utility	-	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	299,056	334,056	335,392	1,336	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-	-	-	-	-	-
Intergovernmental	14,314	14,314	17,676	3,362	-	-	-	-	-	-	-	-
Charge for services	43,702	43,702	46,565	2,863	-	-	-	-	263,198	294,698	286,175	(8,529)
Fines and forfeitures	-	-	-	-	-	-	-	-	-	-	-	-
Investment income	1,404	1,404	2,504	1,100	-	-	-	-	405	405	702	297
Other revenue	1,500	1,500	1,500	-	-	-	-	-	-	-	37	37
Total Revenues	1,380,941	1,380,941	1,410,686	29,745	299,056	334,056	335,392	1,336	263,603	295,103	286,914	(8,189)
EXPENDITURES												
Current:												
Judicial	-	-	-	-	-	-	-	-	-	-	-	-
General government	-	-	-	-	-	-	-	-	-	-	-	-
Public safety	-	-	-	-	-	-	-	-	-	-	-	-
Physical environment	-	-	-	-	-	-	-	-	-	-	-	-
Transportation	-	-	-	-	-	-	47	47	-	-	-	-
Social Services	-	-	-	-	-	-	-	-	-	-	-	-
Economic environment	-	-	-	-	-	-	-	-	-	-	-	-
Culture and recreation	-	-	-	-	-	-	-	-	-	-	-	-
Capital outlay	1,397,138	1,397,138	1,398,448	1,310	-	-	-	-	262,603	294,103	286,701	(7,402)
Debt service:	-	-	-	-	-	-	-	-	-	-	-	-
Principal	-	-	-	-	-	-	-	-	-	-	-	-
Interest and debt issue costs	-	-	-	-	-	-	-	-	-	-	-	-
Total Expenditures	1,397,138	1,397,138	1,398,448	1,310	-	-	47	47	262,603	294,103	286,701	(7,402)
Excess (deficiency) of revenues over (under) expenditures	(16,196)	(16,196)	12,238	28,435	299,056	334,056	335,345	1,289	1,000	1,000	213	(787)
OTHER FINANCING SOURCES (USES)												
Transfers in	-	-	-	-	-	-	-	-	-	-	-	-
Transfers out	-	-	-	-	(299,056)	(334,056)	(334,056)	0	-	-	-	-
Refunding debt proceeds	-	-	-	-	-	-	-	-	-	-	-	-
Use of refunding debt proceeds	-	-	-	-	-	-	-	-	-	-	-	-
Capital Leases	-	-	-	-	-	-	-	-	-	-	-	-
Disposition of capital assets	-	-	21	21	-	-	-	-	-	-	-	-
Total other financing sources (uses)	-	-	21	21	(299,056)	(334,056)	(334,056)	0	-	-	-	-
Net change in fund balances	(16,196)	(16,196)	12,259	28,455	-	-	1,289	1,289	1,000	1,000	213	(787)
Fund Balances - January 1	96,004	96,004	96,004		12,095	12,095	12,095		69,357	69,357	69,357	
Fund Balances - December 31	79,808	79,808	108,263		12,095	12,095	13,385		70,357	70,357	69,570	

The City budgets certain funds as Special Revenue Funds for budgetary control purposes which are included in the General Fund for GAAP reporting purposes. This statement highlights some those differences.
The accompanying notes are an integral part of this statement

City of Anacortes
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget to Actual (Budget Basis)
For the Year Ended December 31, 2017

	AOFL Management Fund (113)				Ambulance Service Fund 110			
	Budgeted Amounts		Variance With Final Budget Over/(Under)		Budgeted Amounts		Variance With Final Budget Over/(Under)	
	Original	Final			Original	Final		
REVENUES								
Taxes:								
Property	-	-	-	-	118,632	65,632	121,996	56,364
Sales	-	-	-	-	506,805	506,805	545,078	38,273
Utility	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-	-
Intergovernmental	-	-	29,439	29,439	857,318	857,318	847,103	(10,215)
Charge for services	50,000	50,000	62,500	12,500	1,743,719	1,796,719	1,693,821	(102,898)
Fines and forfeitures	-	-	-	-	-	-	-	-
Investment income	22,520	22,520	2,645	(19,875)	-	-	-	-
Other revenue	-	-	5,150	5,150	-	37,000	1,431	1,431
Total Revenues	72,520	72,520	99,734	27,214	3,226,474	3,263,474	3,245,929	(17,544)
EXPENDITURES								
Current:								
Judicial	-	-	-	-	-	-	-	-
General government	-	-	-	-	-	-	-	-
Public safety	-	-	-	-	3,226,474	3,261,974	3,170,079	(91,895)
Physical environment	-	-	-	-	-	-	-	-
Transportation	-	-	-	-	-	-	-	-
Social Services	-	-	-	-	-	-	-	-
Economic environment	-	-	-	-	-	-	-	-
Culture and recreation	27,866	197,566	106,940	(90,626)	-	-	-	-
Capital outlay	-	60,500	60,419	(81)	-	41,000	39,748	(1,252)
Debt service:								
Principal	-	-	-	-	-	-	-	-
Interest and debt issue costs	-	-	-	-	-	-	-	-
Total Expenditures	27,866	258,066	167,359	(90,707)	3,226,474	3,302,974	3,209,826	(93,147)
Excess (deficiency) of revenues over (under) expenditures	44,654	(185,546)	(67,625)	117,921	0	(39,500)	36,103	75,603
OTHER FINANCING SOURCES (USES)								
Transfers in	-	-	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-	-	-
Refunding debt proceeds	-	-	-	-	-	-	-	-
Use of refunding debt proceeds	-	-	-	-	-	-	-	-
Capital Leases	-	-	-	-	-	-	-	-
Disposition of capital assets	-	-	-	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-	-	-	-
Net change in fund balances	44,654	(185,546)	(67,625)	117,921	0	(39,500)	36,103	75,603
Fund Balances - January 1	361,643	361,643	361,643		462,025	462,025	462,025	
Fund Balances - December 31	406,297	176,097	294,018		462,025	422,525	498,128	

The City budgets certain funds as Special Revenue Funds for budgetary control purposes which are included in the General Fund for GAAP reporting purposes. This statement highlights some those differences.
The Ambulance Service Fund is budgeted using the accrual method of accounting and presented on the governmental statements as modified accrual (GAAP).
The accompanying notes are an integral part of this statement

Firefighters' Pension Fund

GASB Statement No. 67 Money-Weighted Rate of Return

Fiscal Year Ending December 31	Contribution Deficiency (Excess)
2009	N/A
2010	N/A
2011	N/A
2012	N/A
2013	N/A
2014	0.03%
2015	0.04%
2016	1.45%
2017	1.01%

Calculation of Money-Weighted Rate of Return

The money-weighted rate of return considers the changing amounts actually invested during a period and weights the amount of pension plan investments by the proportion of time they are available to earn a return during that period. External cash flows are determined on a monthly basis and are assumed to occur at the beginning of each month. External cash inflows are netted with external cash outflows, resulting in a net external cash flow in each month. The money-weighted rate of return is calculated net of investment expenses.

Firefighters' Pension Fund

GASB Statement No. 67 and 68 Schedule of Changes in Net Pension Liability and Related Ratios

\$ Thousands

	Fiscal Year Ending December 31									
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Total Pension Liability	\$0	\$0	\$0	\$0	N/A	N/A	N/A	N/A	N/A	N/A
Service Cost	23	23	22	23	N/A	N/A	N/A	N/A	N/A	N/A
Interest on total pension liability	0	0	0	0	N/A	N/A	N/A	N/A	N/A	N/A
Effect on plan changes	(19)	0	(54)	0	N/A	N/A	N/A	N/A	N/A	N/A
Effect of economic/demographic gains or losses	15	(16)	61	16	N/A	N/A	N/A	N/A	N/A	N/A
Effect of assumption on changes or inputs	(30)	(28)	(27)	(26)	N/A	N/A	N/A	N/A	N/A	N/A
Benefit payments	(10)	(22)	3	13	N/A	N/A	N/A	N/A	N/A	N/A
Net change in total pension liability	636	658	655	642	N/A	N/A	N/A	N/A	N/A	N/A
Total pension liability, beginning	626	636	658	655	N/A	N/A	N/A	N/A	N/A	N/A
Total pension liability, ending (a)										
Fiduciary Net Position										
Employer contributions	\$5	\$5	\$7	\$5	N/A	N/A	N/A	N/A	N/A	N/A
Contributions from state fire insurance premium tax	22	21	20	21	N/A	N/A	N/A	N/A	N/A	N/A
Investment income net of investment expenses	2	3	0	0	N/A	N/A	N/A	N/A	N/A	N/A
Benefit payments	(30)	(28)	(27)	(26)	N/A	N/A	N/A	N/A	N/A	N/A
Medical payments from fund	0	0	0	0	N/A	N/A	N/A	N/A	N/A	N/A
Administrative expenses	(3)	(12)	(11)	0	N/A	N/A	N/A	N/A	N/A	N/A
Net change in plan fiduciary net position	(4)	(10)	(10)	(1)	N/A	N/A	N/A	N/A	N/A	N/A
Fiduciary net position, beginning	210	221	231	232	N/A	N/A	N/A	N/A	N/A	N/A
Fiduciary net position, ending (b)	207	210	221	231	N/A	N/A	N/A	N/A	N/A	N/A
Net pension liability, ending = (a) - (b)	419	425	437	424	N/A	N/A	N/A	N/A	N/A	N/A
Fiduciary net position as a % of total pension liability	33.01%	33.09%	33.59%	35.27%	N/A	N/A	N/A	N/A	N/A	N/A
Covered payroll	\$0	\$0	\$0	\$0	N/A	N/A	N/A	N/A	N/A	N/A
Net pension liability as a % of covered payroll	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

This schedule is presented to illustrate the requirement to show information for 10 years. However, recalculations of prior years are not required, and if prior years are

Firefighters' Pension Fund

GASB Statement No. 67 Schedule of Employer Contributions

The schedule of Employer Contributions is only required when there is an Actuarially Determined Contribution. As the City of Anacortes has chosen to fund the Firemen's Pension Fund on a pay-as-you-go basis, there is no such contribution calculated, making the schedule non applicable to the City of Anacortes.

REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Plans

City of Anacortes
Schedule of Proportionate Share of the Net Pension Liability
Pers 1
As of **June 30, 2017**
Last 10 Fiscal Years*

	2017	2016	2015	20XX	20XX	20XX	20XX	20XX	20XX
Employer's proportion of the net pension liability (asset) %	0.079033%	0.078458%	0.076085%						
Employer's proportionate share of the net pension liability (asset) \$	3,750,177	4,213,564	3,979,953						
Covered payroll* \$	9,880,846	9,299,755	8,633,030						
Employer's proportionate share of the net pension liability as a percentage of covered payroll %	37.95%	45.31%	46.10%						
Plan fiduciary net position as a percentage of the total pension liability %	61.24%	57.03%	59.10%						

Notes to Schedule:

REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Plans

City of Anacortes
Schedule of Proportionate Share of the Net Pension Liability
Pers 2/3
As of **June 30, 2017**
Last 10 Fiscal Years*

	2017	2016	2015	20XX	20XX	20XX	20XX	20XX	20XX
Employer's proportion of the net pension liability (asset) %	0.099923%	0.098829%	0.096503%						
Employer's proportionate share of the net pension liability (asset) \$	3,471,847	4,975,962	3,448,107						
Covered payroll* \$	9,806,993	9,227,923	8,633,030						
Employer's proportionate share of the net pension liability as a percentage of covered payroll %	35.40%	53.92%	39.94%						
Plan fiduciary net position as a percentage of the total pension liability %	90.97%	85.82%	89.20%						

Notes to Schedule:

REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Plans

City of Anacortes
Schedule of Proportionate Share of the Net Pension Liability
Leoff 1
As of **June 30, 2017**
Last 10 Fiscal Years*

	2017	2016	2015	20XX	20XX	20XX	20XX	20XX	20XX
Employer's proportion of the net pension liability (asset)	%	0.029130%	0.028612%	0.028425%					
Employer's proportionate share of the net pension liability (asset)	\$	(441,966)	(294,785)	(342,584)					
State's proportionate share of the net pension liability (asset) associated with the employer	\$	(2,989,448)	(1,993,921)	(2,317,230)					
TOTAL	\$	(3,431,414)	(2,288,707)	(2,659,814)					
Covered payroll*	\$	84,236	81,685	80,535					
Employer's proportionate share of the net pension liability as a percentage of covered payroll	%	524.68%	360.88%	425.38%					
Plan fiduciary net position as a percentage of the total pension liability	%	135.96%	123.74%	127.36%					

Notes to Schedule:

REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Plans

City of Anacortes
Schedule of Proportionate Share of the Net Pension Liability
Leoff 2
As of **June 30, 2017**
Last 10 Fiscal Years*

	2017	2016	2015	20XX	20XX	20XX	20XX	20XX	20XX
Employer's proportion of the net pension liability (asset) %	0.154195%	0.158845%	0.154935%						
Employer's proportionate share of the net pension liability (asset) \$	(2,139,727)	(923,890)	(1,592,422)						
State's proportionate share of the net pension liability (asset) associated with the employer \$	(1,388,001)	(602,309)	(1,052,916)						
TOTAL \$	(3,527,728)	(1,526,199)	(2,645,333)						
Covered payroll* \$	4,812,891	4,812,072	4,496,811						
Employer's proportionate share of the net pension liability as a percentage of covered payroll %	44.46%	19.20%	35.41%						
Plan fiduciary net position as a percentage of the total pension liability %	113.36%	106.04%	111.67%						

Notes to Schedule:

REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Plans

City of Anacortes
Schedule of Employer Contributions
Pers 1
For the year ended **December 31, 2017**
Last 10 Fiscal Years*

	2017	2016	2015	20XX	20XX	20XX	20XX	20XX	20XX
<u>Statutorily or contractually required contributions</u> \$	499,002	462,194	396,238						
<u>Employer's proportionate share of the net pension liability (asset)</u> \$	(499,002)	(462,194)	(396,238)						
<u>Contribution deficiency (excess)</u> \$	0	0	0						
<u>Covered payroll*</u> \$	10,071,849	9,598,482	9,001,302						
<u>Contributions as a percentage of covered payroll</u> %	4.95%	4.82%	4.40%						

Notes to Schedule:

REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Plans

City of Anacortes
Schedule of Employer Contributions
Pers 2/3
For the year ended **December 31, 2017**
Last 10 Fiscal Years*

	2017	2016	2015	20XX	20XX	20XX	20XX	20XX	20XX
<u>Statutorily or contractually required contributions</u> \$	679,573	593,639	498,975						
Employer's proportionate share of the net pension liability (asset)	(679,573)	(593,639)	(498,975)						
Contribution deficiency (excess)	0	0	0						
<u>Covered payroll*</u> \$	9,978,415	9,525,959	8,929,960						
<u>Contributions as a percentage of covered payroll</u> %	6.81%	6.23%	5.59%						

Notes to Schedule:

REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Plans

City of Anacortes
Schedule of Employer Contributions
Leoff 1
For the year ended **December 31, 2017**
Last 10 Fiscal Years*

	2017	2016	2015	20XX	20XX	20XX	20XX	20XX	20XX
<u>Statutorily or contractually required contributions</u> \$	0	0	0						
<u>Employer's proportionate share of the net pension liability (asset)</u> \$	0	0	0						
<u>Contribution deficiency (excess)</u> \$	0	0	0						
<u>Covered payroll*</u> \$	85,818	82,596	81,449						
<u>Contributions as a percentage of covered payroll</u> %	0.00%	0.00%	0.00%						

Notes to Schedule:

REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Plans

City of Anacortes
Schedule of Employer Contributions
Leoff 2
For the year ended **December 31, 2017**
Last 10 Fiscal Years*

	2017	2016	2015	20XX	20XX	20XX	20XX	20XX	20XX
<u>Statutorily or contractually required contributions</u> \$	253,071	247,617	232,418						
Employer's proportionate share of the net pension liability (asset)	<u>(253,071)</u>	<u>(247,617)</u>	<u>(232,418)</u>						
Contribution deficiency (excess)	<u>0</u>	<u>0</u>	<u>0</u>						
<u>Covered payroll*</u> \$	4,875,188	4,903,306	4,602,326						
<u>Contributions as a percentage of covered payroll</u> %	5.19%	5.05%	5.05%						

Notes to Schedule:

LEOFF 1 RETIREE MEDICAL BENEFITS

SCHEDULE OF FUNDING PROGRESS December 31, 2017

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liabilities Entry Age	Unfunded Actuarial Liabilities (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
December 31, 2008	0	\$5,610,490	(\$5,610,490)	0%	\$246,576	2275%
December 31, 2011	0	5,813,788	(\$5,813,788)	0%	205,253	2832
December 31, 2012	0	5,249,355	(\$5,249,355)	0%	162,629	3228
December 31, 2013	0	7,457,152	(\$7,457,152)	0%	88,162	8458
December 31, 2014	0	7,237,130	(\$7,237,130)	0%	98,433	7352
December 31, 2015	0	8,152,514	(\$8,152,514)	0%	94,607	8617
December 31, 2016	0	7,192,875	(\$7,192,875)	0%	93,227	7715
December 31, 2017	0	7,778,764	(\$7,778,764)	0%	95,981	8105

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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

Contact information for the State Auditor's Office	
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Toll-free Citizen Hotline	(866) 902-3900
Website	www.sao.wa.gov