



Office of the Washington State Auditor
Pat McCarthy

Financial Statements and Federal Single Audit Report

City of Shoreline

For the period January 1, 2018 through December 31, 2018

Published September 30, 2019

Report No. 1024777





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

September 30, 2019

Council
City of Shoreline
Shoreline, Washington

Report on Financial Statements and Federal Single Audit

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

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

Sincerely,

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

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

City of Shoreline January 1, 2018 through December 31, 2018

SECTION I – SUMMARY OF AUDITOR’S RESULTS

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

Financial Statements

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

Internal Control over Financial Reporting:

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

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

Federal Awards

Internal Control over Major Programs:

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

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

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

Identification of Major Federal Programs

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

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

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

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

SECTION II – FINANCIAL STATEMENT FINDINGS

See finding 2018-001.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

City of Shoreline

January 1, 2018 through December 31, 2018

2018-001 The City's internal controls over accounting and financial reporting were inadequate to ensure financial statements were accurate and complete.

Background

City management is responsible for designing, implementing and maintaining internal controls to ensure financial statements are fairly presented and provide reasonable assurance regarding the reliability of financial reporting. Inaccurate financial reports limit access to financial information used by City Council members, the public, state and federal agencies, and other interested parties.

Our audit identified deficiencies in controls that we consider a material weakness. These deficiencies hinder the City's ability to accurately present their financial statements. *Government Auditing Standards* requires that the auditor communicate a material weakness in internal controls as a finding.

Description of Condition

For fiscal year 2018, the City created a new process, using a spreadsheet, to help prepare the financial statements. The spreadsheet included formulas to help prepare certain account balances, including Net Investment in Capital Assets.

In addition, effective October 23, 2017, the City contracted with Ronald Wastewater District to take over the District's day-to-day operations. The City established the Wastewater Utility Fund to record the activities of District operations. The City invoices the District each quarter for budgeted operating costs. The money the City collects on behalf of the District is also taken into account. Annually, the City reconciles actual costs to budgeted costs in addition to money collected for the District. The difference between costs and money collected should be reported as either a Due to or Due from Other Governments. At year-end, the City determined it owed the District \$206,511.

We identified the following deficiencies in internal controls that represent a material weakness:

- The City did not dedicate sufficient time and resources to ensure the spreadsheet produced reports that were accurate, complete and free from errors.
- Although the City had procedures to perform a final review of the prepared financial statements, the review was not adequate to ensure balances appeared reasonable and that the City detected and corrected errors before audit.

Cause of Condition

The City was unaware of a formula error in the spreadsheet that was used to create the financial statements. The formula for reporting the Net Investment in Capital Assets, in the Internal Service Fund, used the wrong line items to calculate the balance.

Further, the City used the Due to Other Government and Due from Other Government accounts to capture the annual revenue and expense activities with Ronald Wastewater District. However, the accounts should include only activities that are due at year-end.

Effect of Condition

Net Investment in Capital Assets

As a result of the formula error, the City incorrectly reported Net Investment in Capital Assets of \$4,068,120 in the Internal Service Fund. The capital asset balance in the fund was only \$1,384,290, and there was no debt associated with the capital asset. Therefore, the most the City could have reported as Net Investment in Capital Asset was the capital asset balance of \$1.3 million.

As a result, Net Investment in Capital Assets was overstated by \$2,683,830 and Unrestricted Net Position was understated by the same amount.

Due to and Due from Other Governments

The City reported the annual revenue and expenditure activities between the City and Ronald Wastewater District as Due to and Due from Other Government accounts. However, these two accounts should represent amounts owed between the City and District at year-end and not the total activity for the year. This resulted in the following material classification errors:

- Due from Other Governments was overstated by \$1,683,110 in the Wastewater Utility Fund. This balance should have been \$0, because the District did not owe the City any payments at year-end.
- Due to Other Governments was overstated by \$1,683,110 in the General Fund. The City reported \$1,889,621 as a Due to Other Government; however, the City should have reported only \$206,511.

The City corrected the misstatements and received an unmodified opinion on the financial statements.

Recommendations

We recommend the City:

- Dedicate sufficient time and resources to ensure the spreadsheet produced reports that are accurate, complete and free from errors
- Perform an adequate final review of the financial statements to ensure balances appear reasonable.

City's Response

1) Net Investment in Capital Assets - Internal Service Fund

The City is committed to process improvement, and one that we implemented for the 2018 financial report is automating the statements, using a program that pulls account balances directly from the financial system into Excel templates. There is a substantial amount of set up work, but once completed, the process greatly reduces the risk of errors in translating g/l balances into the YE financial report. There was considerable testing and review that went into this transition with the recreation of 2017 financial statements and reconciliation of the statements produced from with new tool to the manually prepared statements from 2017. Despite our review efforts the internal service fund net position, while correct in total, was not accurately split between Net Investment in Capital Assets and Unrestricted. The 2018 statements were reviewed by 3 different individuals, but the error, in the lower right corner of the statement, was not identified.

With the new reporting tool in-place, staff anticipate being able to produce financial statements faster. This will afford additional time for review including comparison with prior years' statements at a more detailed line item level to identify issues such as this one, and the use of a 3-year trend analysis like that used by the Auditors to help identify other potential areas of concern. Additionally, now that the City is aware that changes can be made to the financial statements after

the May 30th deadline, but prior to the beginning of the audit, review can continue if necessary, to resolve any concerns identified during the review.

2) Due to and Due from Other Governments – Wastewater Enterprise Fund

Under the terms of the operating services agreement between Ronald Wastewater District and the City of Shoreline, the city performs the day to day operations of the district and pays most of the expenses generated by the operations. Originally, the City and the district anticipated that the district would provide funding on a quarterly basis, in advance, to fund the operations. However, after transition to the new operating structure, the city found that the amount of funds it was collecting on behalf of the district, accounted for as being due to RWD, offset a large portion of the operating expense. For this reason, it was not necessary to invoice the district quarterly for advance funds based on budgeted expenses, as the combination of the two would mean the city would have surplus funds. The city accounted for the amount due from the district for the operation of the wastewater utility under the terms of the operating agreement as revenue and due from the district (Due From). The funds being collected by the City on the district's behalf were accounted for separately as a liability/due to the district to ensure transparency, particularly should the district's Board of Commissioners question whether the district was receiving the full benefit of funds collected on its behalf (Due to). There is no dispute that the net amount is accurate, but the city believed reporting it as gross due to and due from provided this additional transparency, even though it was unusual in nature. The SAO determined that this was not acceptable, and the city has now netted the number to the actual amount due to the district as of year-end. This change made no impact to the Fund or City's net position.

For 2019's annual report, the City will report this activity as a net amount on the yearend report. However, the city will continue to track the amounts separately internally to ensure appropriate transparency and accountability.

Auditor's Remarks

We appreciate the steps the City is taking to resolve the issues. We will review the status of this finding during our next scheduled audit.

Applicable Laws and Regulations

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

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

RCW 43.09.200 – Local government accounting – Uniform system of accounting, gives the state auditor the authority to formulate, prescribe and install a uniform system of accounting and reporting for all local governments.

Budgeting, Accounting and Reporting System (BARS) manual, 3.1.3, Internal Control describes the responsibilities of governments and their management regarding internal controls.

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

**City of Shoreline
January 1, 2018 through December 31, 2018**

Council
City of Shoreline
Shoreline, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Shoreline, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated September 30, 2019.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Audit Findings and Responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent,

or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Audit Findings and Responses as Finding 2018-001 to be material weaknesses.

COMPLIANCE AND OTHER MATTERS

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

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

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.

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

Pat McCarthy

State Auditor

Olympia, WA

September 30, 2019

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

**City of Shoreline
January 1, 2018 through December 31, 2018**

Council
City of Shoreline
Shoreline, Washington

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

We have audited the compliance of the City of Shoreline, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended December 31, 2018. The City's major federal programs are identified in the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

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

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2018.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

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

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

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

Purpose of this Report

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

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

Pat McCarthy

State Auditor

Olympia, WA

September 30, 2019

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

City of Shoreline January 1, 2018 through December 31, 2018

Council
City of Shoreline
Shoreline, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Shoreline, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed on page 20.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design

audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Shoreline, as of December 31, 2018, and the respective changes in financial position and, where applicable, cash flows thereof, and the budgetary comparison for the General Fund, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information listed on page 20 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by

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

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2019 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Pat McCarthy
State Auditor
Olympia, WA

September 30, 2019

FINANCIAL SECTION

City of Shoreline January 1, 2018 through December 31, 2018

REQUIRED SUPPLEMENTARY INFORMATION

Management Discussion and Analysis – 2018

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2018

Statement of Activities – 2018

Balance Sheet – Governmental Funds – 2018

Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds – 2018

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities – 2018

Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund – 2018

Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund Reconciliation – 2018

Statement of Net Position – Proprietary Funds – 2018

Statement of Revenues, Expenses and Changes in Net Position – Proprietary Funds – 2018

Statement of Cash Flows – Proprietary Funds – 2018

Statement of Net Position – Fiduciary Funds – 2018

Notes to Financial Statements – 2018

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Proportionate Share of the Net Pension Liability and Schedule of Employer Contributions – PERS 1 – 2018

Schedule of Proportionate Share of the Net Pension Liability and Schedule of Employer Contributions – PERS 2/3 – 2018

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Expenditures of Federal Awards – 2018

Notes to the Schedule of Expenditures of Federal Awards – 2018

Management Discussion and Analysis

As management of the City of Shoreline, we offer readers of the City of Shoreline's financial statements this narrative overview and analysis of the financial activities of the City of Shoreline for the fiscal year ended December 31, 2018.

Financial Highlights

The Assets of the City Shoreline exceeded its Liabilities at the end of the most recent fiscal year by \$357,325,140. Of this amount, \$28,108,912 may be used to meet the City's ongoing obligations to citizens and creditors.

- The City's total net position increased by \$1,178,064 from 2017. Expenses from governmental activities exceeded governmental revenues by \$231,750 and business-type activity revenues exceeded expenses by \$1,409,814 in 2018 before transfers and special items.
- As of the close of 2018, the City of Shoreline's governmental funds reported combined ending net position balances of \$340,355,317, an increase of \$384,100, in comparison with the prior year. Approximately 7% or \$ 26 million, constitutes unrestricted fund balance, which is available for spending at the government's discretion for general operations.
- At the end of the current fiscal year, assigned and unassigned fund balance of the general fund was \$12,352,150 or 36%, of the total general fund expenditures.
- The City's total outstanding debt decreased \$2,251,760, in total, during 2018. This change was the result of: a decrease to a principal payment of \$2,309,000 on General Obligation debt, the principal payment of \$326,475 on the Public Works Trust Fund Loan, the principal payment of \$116,285 on the (2016) Revenue Bonds and a withdrawal of \$500,000 on the (2018) Revenue Bonds.

As of December 31, 2018, the City had total debt outstanding of \$28,344,511. This total amount represents General Obligation Bonds; Revenue Bonds; and Public Works Trust Fund loans outstanding. The City issued unlimited tax general obligation bonds in 2006 to be used for open space acquisition and park improvements. These bonds were refunded in 2016 with general obligation bonds which have a five-year repayment period and fixed interest rates of between 1.02% and 1.72%. They will be repaid by a voter approved property tax levy. The City issued general obligation bonds in 2009 to be used to pay the purchase of City Hall. The 2009 Series B LTGO bonds (Taxable Build America Bonds, Direct-Pay) have a thirty-year repayment period and variable fixed rates of between 4.69% and 6.4%. They will be repaid by real estate excise taxes and General revenues. The City issued 2013 LTGO bonds to finance the purchase of North Maintenance Facility. These bonds have a twenty-year repayment period, at a fixed interest rate of 3.75%. They will be repaid by general property taxes. The City issued Surface Water Utility Revenue bond in 2016 for various Surface Water Utility projects. These bonds have a fifteen-year repayment period and a fixed interest rate of 2.23%. The 2001 Public Works Trust Fund loans were used to complete the Ronald Bog and 3rd Avenue NW drainage improvement projects. These loans have a twenty-year repayment period and a fixed interest rate of 0.5%. The repayment for these loans will come from surface water utility fees.

In December of 2018, the City entered into a private placement agreement for the issuance of \$4,700,000 in Revenue Bonds, for various Surface Water projects. The terms of the agreement stipulated that the City could withdraw the \$4,700,000 in funds over a two-year period. As of December 31, 2018, the City had only withdrawn \$500,000. The remaining \$4,200,000 balance of the 2018 Revenue Bonds available will be drawn down during 2019 and 2020.

Overview of the Financial Statements

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

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

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

Both of the government-wide financial statements distinguish functions of the City of Shoreline that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities for the City include general government, public safety, physical environment (e.g., construction inspection and capital planning and design), transportation, economic environment (e.g., permitting, planning), and culture & recreation. The business-type activities of the City are the surface water utility and wastewater utility.

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

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

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

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

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

Proprietary funds. The City of Shoreline maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its surface water utility and

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

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

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

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

Government-wide Financial Analysis

Table 1
City of Shoreline's Net Position
December 31, 2018

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Current and other assets	\$ 44,360,216	\$ 41,468,290	\$ 4,075,552	\$ 3,202,900	\$ 48,435,768	\$ 44,671,190
Capital assets	334,663,702	340,465,976	18,053,595	17,959,656	352,717,298	358,425,632
Total Assets	379,023,918	381,934,265	22,129,148	21,162,556	401,153,066	403,096,821
Deferred Outflow s of Resources	1,451,783	1,727,654	201,774	163,562	1,653,557	1,891,216
Total Assets and Defferred Outflow s of Resources	380,475,701	383,661,919	22,330,922	20,760,515	402,806,622	404,422,434
Non-Current liabilities	5,900,181	4,967,855	623,115	818,392	6,523,297	5,786,247
Other liabilities	31,717,927	36,785,477	4,364,121	4,171,546	36,082,048	40,957,023
Total liabilities	37,618,108	41,753,333	4,987,236	4,989,938	42,605,344	46,743,270
Deferred Inflow s of Resources	2,502,275	1,937,369	373,863	134,352	2,876,138	2,071,721
Net Position:						
Net Investment in Capital Assets	309,670,503	313,036,686	14,804,084	14,767,385	324,474,588	327,804,072
Restricted	4,741,641	4,041,942	-	-	4,741,641	4,041,942
Unrestricted	25,943,174	22,892,589	2,165,738	1,434,444	28,108,912	24,327,033
Total net position	\$ 340,355,317	\$ 339,971,217	\$ 16,969,823	\$ 16,201,829	\$ 357,325,140	\$ 356,173,046

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City of Shoreline, assets exceeded liabilities by \$357,325,140 as of December 31, 2018.

By far the largest portion of the City's net position (91%) reflects the investment in capital assets (e.g., infrastructure, land, buildings, machinery, and equipment); less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its

capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The unrestricted net position of both governmental and business activities \$28,108,912 may be used to meet the government's ongoing obligations to citizens and creditors.

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

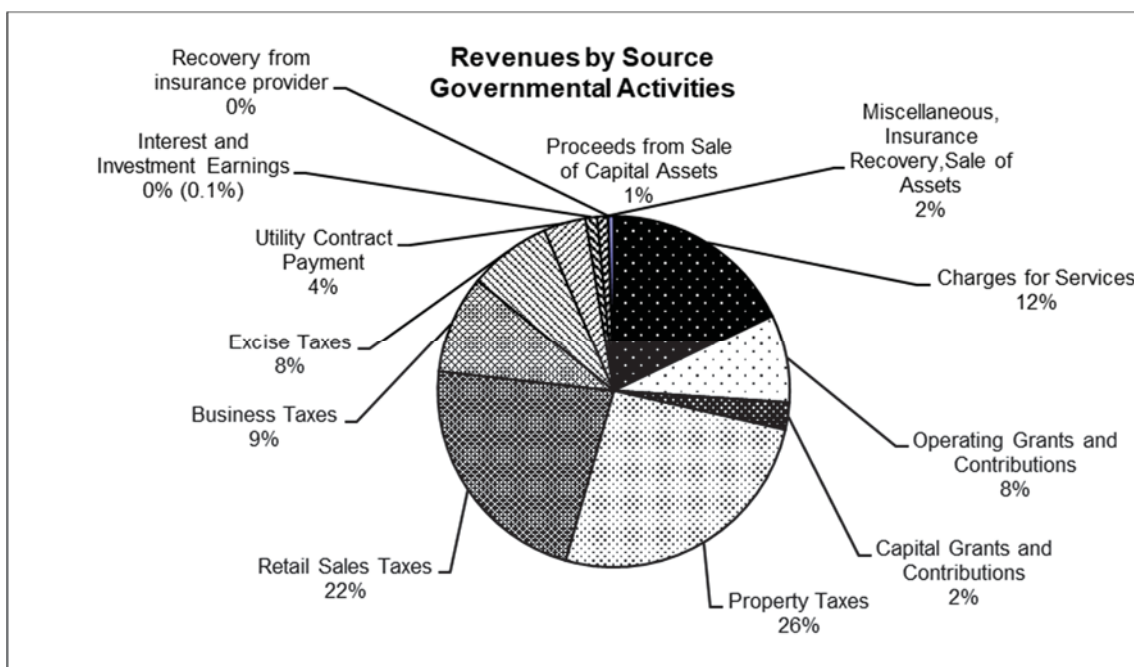
The City's net position increased by \$1,178,064 compared to 2017. The unrestricted net position increased \$3,781,879.

Governmental activities. Governmental activities increased the City's net position by \$410,071, whereas the Business-type activities increased \$767,994. Key elements of the increase are as follows:

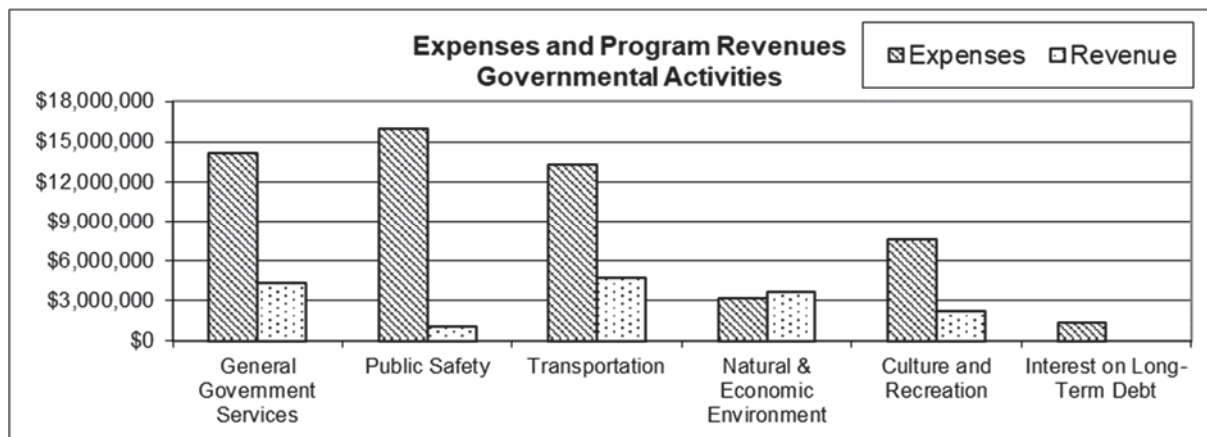
City of Shoreline's Changes in Net Activities						
	Governmental activities		Business-type activities		Total	
	2018	2017	2018	2017	2018	2017
Revenues:						
Program Revenues:						
Charges for Services	\$ 9,895,111	\$ 9,143,363	\$ 7,621,979	\$ 4,604,158	\$ 17,517,090	\$ 13,747,522
Operating Grants and Contributions	\$ 4,541,894	4,488,161	50,292	47,053	\$ 4,592,186	\$ 4,535,214
Capital Grants and Contributions	\$ 1,372,414	3,071,056	81,685	34,477	\$ 1,454,099	\$ 3,105,533
General revenues:						
Property Taxes	14,318,062	13,876,006	-	-	\$ 14,318,062	\$ 13,876,006
Retail Taxes	12,375,399	10,153,986	-	-	\$ 12,375,399	\$ 10,153,986
Business Taxes	5,072,978	5,300,843	-	-	\$ 5,072,978	\$ 5,300,843
Excise Tax	4,222,103	4,570,695	-	-	\$ 4,222,103	\$ 4,570,695
Utility Contract Payment	2,135,311	2,055,988	-	-	\$ 2,135,311	\$ 2,055,988
Interest and Investment Earnings	590,807	300,675	39,714	21,831	\$ 630,522	\$ 322,506
Miscellaneous	559,719	513,294	44,900	46,303	\$ 604,619	\$ 559,598
Total Revenue	55,083,799	53,474,067	7,838,570	4,753,822	62,922,369	58,227,889
Expenses:						
General Government	14,201,235	11,256,473	-	-	14,201,235	11,256,473
Public Safety	16,065,345	15,641,312	-	-	16,065,345	15,641,312
Transportation	13,270,767	14,092,948	-	-	13,270,767	14,092,948
Natural & Economic Environment	3,137,505	3,241,635	-	-	3,137,505	3,241,635
Culture and Recreation	7,577,258	8,942,388	-	-	7,577,258	8,942,388
Interest on Long-Term Debt	1,341,136	1,338,135	-	-	1,341,136	1,338,135
Surface Water & Wastewater	-	-	6,430,626	5,051,481	6,430,626	5,051,481
Total Expenses	55,593,246	54,512,890	6,430,626	5,051,481	62,023,871	59,564,370
Increase in net position before transfers and special items	(509,447)	(1,038,823)	1,407,945	(297,658)	898,497	(1,336,481)
Transfers	641,821	660,694	(641,821)	(660,694)	-	(0)
Insurance Recoveries	5,902	20,819	1,870	2,825	7,772	23,644
Gain from Sale of Capital Assets	271,795	77,865	-	-	271,795	77,865
Special Items	-	956,400	-	178,562	-	1,134,962
Increase in net position	410,071	676,955	767,994	(776,965)	1,178,064	(100,010)
Net position - January 1	339,945,246	339,294,263	16,201,829	16,978,794	356,147,076	356,273,057
Net position - December 31	\$ 340,355,317	\$339,971,218	\$ 16,969,823	\$ 16,201,829	\$ 357,325,140	\$ 356,173,047

Governmental revenues increased year-over-year by \$1.6 million, or 3%. Under the program revenues, charges for services increased \$751,233, operating grants and contributions increased \$53,734, and capital grants and contributions decreased by \$1,698,643.

- **Property Taxes:** Receipts from the Regular Property Tax Levy were \$442,056, or 3%, more.
- **Retail Taxes:** Retail sales tax receipts were \$1,785,575, or 20.7%, more. As part of the fiscal year 2017 state audit, the State Auditor's Office recommended a change in the accrual procedure for recognizing sales tax payments received in the current fiscal year that are applicable to the prior fiscal year. The revised accrual procedure will include accruing prior fiscal year revenues distributed by the state to the City through February 28 of the current year back to the prior year to align with BARS guidance on revenue recognition periods. The impact for 2018 includes reporting thirteen periods of prior year sales tax revenues (received between February 2018 through February 2019) as opposed to the normal twelve periods. This change is also reflected in receipts for other revenues, such as Local Criminal Justice Sales Tax receipts that were \$435,839, or 29%, more.
- **Business Taxes:** Revenues reported in the Business Taxes category decreased by \$227,865 or 4%, overall. Gambling tax receipts increased by \$14,843, or 1%, due to more gaming activity. Utility tax receipts were \$269,179, or 7%, less. Collections from natural gas were less by \$117,668, or 13%, and less from telecommunication services by \$150,904, or 14%.
- **Excise Taxes:** The decrease is largely due to lower collections of real estate excise taxes, which were less by \$360,651, or 10%.



Governmental expenses increased year-over-year by \$1 million, or 2%. General Government expenses increased by (\$2,936,582, or 26%). Public Safety increased by (\$424,033, or 3%), as contract costs for jail services decreased (-\$405,981, or -22%) and costs for permitting, inspections, and engineering services increased (+\$724,077, or +36%). Transportation expenses decreased by \$822,181, or 6%, due to construction of major projects. Culture and Recreation decreased by \$1.37 million, or 18%, primarily due to construction of major projects.



Business-type activities. Business-type activities increased the City's net position by \$759,814. Key elements of this change are as follows:

- Charges for services increased over 2017 by \$3 million or 66%.
- Capital grants increase to \$81,685 in 2018 from \$34,477 in 2017.
- Expenses increased by \$1,379,145, or 27% from 2017, due to major projects.

Financial Analysis of the Government's Funds

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

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

As of December 31, 2018, the City's governmental funds reported combined ending fund balances of \$34,246,927, increasing year-over-year by \$1,900,610, as follows: 1) the fund balance of the General Fund increased by \$3,767,818; 2) the fund balance of the General Capital Fund decreased by (\$2,662,542); 3) the fund balance of the Roads Capital Fund increased by \$780,859; and, 4) the fund balance of the non-major funds increased by \$14,474.

Approximately 55% or \$19 million constitutes assigned and unassigned fund balances, which are available for spending at the government's discretion for general operations. In addition to the fund balances available for general operations there are nearly \$10.4 million of committed fund balance and \$4.7 million of restricted fund balance.

The City implemented GASB 54 during 2011 and the financial statements reflect that implementation. The General Fund as reported on the *Statement of Revenues, Expenditures and Changes in Fund Balances for Governmental Funds* consists of three funds: General Fund, Revenue Stabilization Fund, and Property Tax Equalization Fund. As of December 31, 2018, unassigned fund balance of the General Fund was \$8,118,151 while total fund balance reached \$17,817,459. As a measure of General Fund liquidity, it may be useful to compare the unassigned fund balance and total fund balance to total fund expenditures. The unassigned fund balance is approximately 24% of the total fund balance and nearly 20% of the General Fund expenditures excluding transfers out.

The fund balance of the City's General Fund increased year-over-year by \$3,767,818. The City's budget planned for the use of fund balance with a General Fund ending fund balance decrease of \$4,572,000. The planned use of fund balance included one-time allocations for the following purposes:

- \$1,209,811 for carryovers from 2017;
- \$838,338 for a budgeted operating contingency;
- \$255,000 for a budgeted insurance reserve;
- \$1,669,280 for one-time investments;
- \$1,471,505 for a transfer to the General Capital Fund to support the Police Station at City Hall project;
- \$375,000 for a transfer to the Roads Capital Fund for the 185th Corridor Study project;
- \$150,000 for a transfer to the Roads Capital Fund for the 147th/148th Non-Motorized Bridge project;
- \$150,000 for a transfer to the Roads Capital Fund for the Westminster and 155th Improvements project;
- \$100,000 for a transfer to the Roads Capital Fund for the Trail Along the Rail project
- \$105,000 for a transfer to the Roads Capital Fund for the 160th & Greenwood/Innis Arden project; and,
- \$124,759 for a transfer from the Vehicle Maintenance and Operations Fund to the General Fund to redistribute Vehicle Maintenance and Operations Fund back to contributing funds.
- \$630,645 for a transfer from the Street Fund to the General Fund to return fund balance accumulated from the General Fund's historic annual support covering the Street Fund's annual revenue shortfall, in excess of the Street Fund's minimum required reserve.

The variance from budget was \$8.4 million better than anticipated. Key factors in this change of activities are as follows:

Overall General Fund revenues increased year-over-year by \$3.9 million, or 9%. Revenues were more than budget by \$1.4 million. The largest factors comprising the year-over-year increase include:

- Regular Property Tax Levy receipts increased by \$471,530, or 4%;
- Retail Sales Tax receipts increased by \$1,785,575, or 20.7%, including the impact of the tax accrual procedure change mentioned previously. Absent that change, the increase is \$879,637 or 10.2%
- Total permit and land use revenues of \$3,490,490 increased by \$643,613, or 23%; and,
- Reimbursement per the Expedited Permitting and Staffing Agreement with Sound Transit is \$382,433 more than 2017.

General Fund expenditures, excluding operating transfers-out, increased year-over-year by \$2,638,787, or 7%. Expenditures were \$5,383,569 less than budget. The most significant areas experiencing budget savings included:

- General Government expenditures were \$2,151,519 million less than budget. A large portion of the savings resulted from the City not using all of the budgeted operating contingency (\$838,338) and 71% of the budgeted insurance reserve (\$180,000 remaining). Projects that were not completed in 2018 that will continue into 2019 include: continuous improvement (\$9,500); implementation of the Business & Occupation tax program (\$205,652); implementation of the Finance and Human Resources System Replacement (\$487,696); and, installation of cellular boosters in 37 City vehicles (\$15,187);
- Public Safety expenditures were \$1,563,251 less than budget primarily as a result of: lower police services costs due to savings in salaries and benefits costs (\$381,944), continuation of the Response Awareness, De-escalation and Referral (RADAR) program (\$343,941), and jail services costs due to the lower cost to house inmates at Yakima Jail (\$141,994), as well as a delay in contract services to: complete structural and non-structural plan review on a backlog of permits (\$127,598) and develop an American with Disability Act Self Evaluation and Transition Plan for Right-of-Way(\$26,122).
- Transportation expenditures were \$679,339 less than budget due to the continuation of the Light Rail Stations project per the Expedited Permitting and Staffing Agreement with Sound Transit, as well as a delay in contracted services to complete development review started in 2018 and not yet completed

(\$1,044); complete pavement markings throughout the city (\$18,111); and, gather traffic data (\$24,013).

- Natural and Economic Environment expenditures were \$272,411 less than budget due to staff vacancies and various items that came in under budget.
- Culture and Recreation expenditures were \$768,837 less than budget due to savings in staff costs and projects that were not completed in 2018 that will continue work into 2019, including: King County Best Start for Youth Grant for the Youth Outreach Leadership and Opportunities (YOLO) Program (\$391,336) and completion of the CHOICES Greenhouse Project (\$8,434).

The General Capital Fund has a deficit fund balance of (\$563,063). The net decrease in fund balance within the General Capital Fund was (\$2,662,542). This occurred because the sale of the former police station, which was to have partially funded the Police Station at City Hall project, was delayed. In consequence, the City Council authorized an interfund loan of \$2.1 million to provide adequate cash flow to the fund. The City is anticipating closing the \$2.45 million sale of the former station in 2019. With all proceeds planned for the Capital Projects Fund, the fund deficit will be eliminated.

The Roads Capital Fund has a fund balance of \$7,249,229, which will be used for transportation capital improvements. The net increase in fund balance within the Roads Capital fund was \$780,859. The primary reason for this increase is increased revenue from real estate excise taxes.

The Non-Major Funds have a fund balance of \$4,592,525, which will be used for: street and right-of-way maintenance; code abatement efforts; training and equipment to support investigations of illegal drug activity; public art projects; collection and use of transportation impact fees; debt service; and, long-term maintenance of City facilities. The net increase in fund balance within these funds was \$14,474 and is largely attributable to receipt of code abatement fine, Traffic Impact Fee, and state seizure monies, which were offset by the expenditure of state and federal seizure monies in support of the Police Station at City Hall project.

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

The net position of the City's Surface Water Utility Fund is \$17,433,669.

The net position of Surface Water Utility Fund increased by \$1,267,534, or 8%. This increase is attributable to a 27% rate increase, which resulted in an increase in charges for services of \$1,542,475. The unrestricted fund balance available for general surface water operations at the end of 2018 amounted to \$2,820,022. Other factors concerning the finances of this fund have already been addressed in the discussion of the City's business-type activities.

The Wastewater Utility Fund began its operation in October 2017 after an approval of an interlocal agreement with Ronald Wastewater District. Its net position at the end of 2018 is a deficit of (\$463,846). The net position of the Wastewater Utility Fund decreased by \$499,541 during 2018. The fund's deficit net position is primarily due to a GASBS No. 68 year-end adjustment of \$414,906 to pension expense. Since the Ronald Wastewater District has a net position which far exceeds the deficit in the Wastewater Utility Fund and the City is set to assume the District, it is anticipated that the Wastewater Utility Fund's net position will increase significantly upon assumption. With the assumption, the deficit will be eliminated, and a strong net position established.

General Fund Budgetary Highlights

For reporting purposes under GASB 54, the General Fund as reported on the *Statement of Revenues, Expenditures and Changes in Fund Balances for Governmental Funds* consists of two funds: General Fund and Revenue Stabilization Fund. The appropriations for these two funds are adopted separately by the City Council. During 2018, the budget was modified only in the General Fund and Property Tax Equalization Fund. No changes in the appropriations were made in the Revenue Stabilization Fund. The following discussion is focused on the General Fund appropriation.

During the year there was a \$2,912,816 increase in appropriation between the original and final amended budget of the General Fund. Following are the main components of the change in appropriation:

- \$1,725,908 supplemental appropriation to fund projects initiated in 2017 that were carried over to be completed in 2018. Unexpended resources from 2017 resulted in a higher than anticipated ending 2017 fund balance, which was appropriated for these expenditures in 2018. The primary projects included: transfer to the Roads Capital Fund for the Trail Along the Rail project (\$113,030); transfer to the Roads Capital Fund for the 147th / 148th Non-Motorized Bridge project (\$199,945); transfer to the Roads Capital Fund for the 185th Corridor Study project (\$140,691); transfer to the Roads Capital Fund for the Westminster & 155th Improvements (\$273,436); reduced Transfer from General Fund to support the Police Station at City Hall project per 2018-2023 CIP because this \$1,000,000 was transferred in 2017; increase transfer from General Fund to support the Police Station at City Hall project; increase transfer from General Fund to support the Police Station at City Hall project reimbursement will come from Remediation Mitigation Claims revenue when received (\$154,000); complete continuous improvement training contract (\$29,623), complete Microfilming of Payroll Records (\$9,703); complete the finance and human services system replacement (\$974,379); complete the permit and customer service system replacement and training (\$59,275); complete second phase of SharePoint implementation (\$7,094); complete Wi-Fi installation (\$3,134), installation of IT hardware in conference rooms (\$11,482); complete wastewater code development (\$37,856); completion of repairs needed to meet NPDES requirements at various parks (\$18,800); Complete the Raikes Foundation Teen Training (\$1,459); establish procedures to administer an affordable housing program (\$33,993); complete structural and non-structural plan review on a backlog of permits (\$34,291); professional services for Point Wells support (\$26,000); repair roof on the Jersey's Restaurant that periodically leaks from excessive rainfall; (\$5,377); ADA Self Evaluation and Transition Plan for Rights-of-Way (\$9,054); development review related to school district projects (\$17,000); complete the Streetlight Master Plan (\$24,588); continue consultant work related to development review (\$25,601); developing an expression of interest prospectus per a Port of Seattle Economic Development Partnership Program Grant (\$42,290), WRR Recycling event (\$7,156), Battery Recycling Program (\$26,378), continue the RADAR Program (\$401,368), CDBG Minor Home Repair (\$38,905).
- \$118,000 supplemental appropriation transfer to the General Capital Fund for the Police Station at City Hall project.
- \$17,183 supplemental appropriation transfer to Fund 201 (2006 GO Bond) to address a shortfall in the excess property tax levy.
- \$7,307 supplemental appropriation to address an increase in prevailing wage associated with janitorial services.
- \$10,000 supplemental appropriation for the retention of existing police station generator for use in the distributed City Maintenance Facility Project.
- \$600 supplemental appropriation for telephone purchase.
- \$9,049 supplemental appropriation for additional supplies for the CHOICES Greenhouse Project.
- \$11,344 supplemental appropriation for food and compostable ware for Recreation programs.
- \$20,750 supplemental appropriation for General Recreation Programs – Ongoing New Program Dandylyon drama.
- \$4,320 supplemental appropriation for outdoor survival camp.
- \$543,355 supplemental appropriation for King County Best Start for Kids Grant: Youth Outreach Leadership and Opportunities (YOLO) Program.
- \$445,000 supplemental appropriation for the implementation of the Business & Occupation tax program, which included the addition of 1.00 full-time equivalent B&O Tax Analyst position.

Capital Asset and Debt Administration

Capital assets. The city's investment in capital assets for its governmental and business-type activities as of December 31, 2018, totals \$352,717,298 net of accumulated depreciation. These assets include

infrastructure, buildings, land, machinery and equipment, vehicles, road improvements, park facilities, and construction-in-progress.

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Land	\$ 135,528,746	\$ 135,515,537	\$ 23,632	\$ 23,632	\$ 135,552,379	\$ 135,539,169
Buildings	31,856,173	26,436,350	-	-	31,856,173	26,436,350
Improvements other than buildings	13,692,863	14,599,522	375,933	383,932	14,068,796	14,983,454
Machinery and equipment	1,873,515	1,817,349	237,308	205,419	2,110,823	2,022,768
Infrastructure	151,644,455	157,953,652	15,626,522	15,629,851	167,270,977	173,583,503
Construction in progress	67,950	4,143,567	1,790,200	1,716,822	1,858,150	5,860,389
Total	\$ 334,663,702	\$ 340,465,977	\$ 18,053,596	\$ 17,959,656	\$ 352,717,298	\$ 358,425,633

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

Police Station	\$ 2,829,441
Vehicles, Machinery, and Equipment	418,566
Traffic Safety Improvements	161,565
Complete Street Sidewalk	298,229
Stormwater Catch basins	440,293
Curb, Gutter & Sidewalk	156,828

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

Long-term debt. As of December 31, 2018, the City had total debt outstanding of \$28,344,511. This total amount represents General Obligation Bonds; Revenue Bonds; and Public Works Trust Fund loans outstanding. The City issued unlimited tax general obligation bonds in 2006 to be used for open space acquisition and park improvements. These bonds were refunded in 2016 with general obligation bonds which have a five-year repayment period and fixed interest rates of between 1.02% and 1.72%. They will be repaid by a voter approved property tax levy. The City issued general obligation bonds in 2009 to be used to pay the purchase of City Hall. The 2009 Series B LTGO bonds (Taxable Build America Bonds, Direct-Pay) have a thirty-year repayment period and variable fixed rates of between 4.69% and 6.4%. They will be repaid by real estate excise taxes and General revenues. The City issued 2013 LTGO bonds to finance the purchase of North Maintenance Facility. These bonds have a twenty-year repayment period, at a fixed interest rate of 3.75%. They will be repaid by general property taxes. The City issued Surface Water Utility Revenue bond in 2016 for various Surface Water Utility projects. These bonds have a fifteen-year repayment period and a fixed interest rate of 2.23%. The 2001 Public Works Trust Fund loans were used to complete the Ronald Bog and 3rd Avenue NW drainage improvement projects. These loans have a twenty-year repayment period and a fixed interest rate of 0.5%. The repayment for these loans will come from surface water utility fees.

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

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
General Obligation	\$ 25,095,000	\$ 27,404,000	\$ -	\$ -	\$ 25,095,000	\$ 27,404,000
Public Works Trust Fund Loans	-	-	979,424	1,305,899	979,424	1,305,899
Revenue Bonds	-	-	2,270,087	1,886,372	2,270,087	1,886,372
Total	\$ 25,095,000	\$ 27,404,000	\$ 3,249,511	\$ 3,192,271	\$ 28,344,511	\$ 30,596,271

The City's total outstanding debt decreased \$2,251,760 during 2018. This change was the result of decrease by principal payment of \$2,309,000 on general obligation debt and the principal payment of \$326,475 on the Public Works Trust Fund Loan. In 2018, Surface Water Utility Fund had a principle payment of \$116,285 for the 2016 Revenue Bonds and a bond withdrawal of \$500,000 for on the 2018 Bond Issuance. Washington State statutes limit the amount of general obligation debt that a unit of government can issue to 7.5 percent of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for the City is \$663,380,500. The City has \$25,095,000 in outstanding general obligation debt as of December 31, 2018. Additional information regarding the City's long-term debt can be found in Note 10 of the Financial Statements.

Economic Factors and Next Year's Budgets and Rates

The following factors were considered in preparing the City's budget for the 2019 fiscal year.

- Employment is expected to advance at annual rates of 1.4% throughout Puget Sound and 1.5% throughout King County between 2018 and 2020.
- Unemployment is expected to decline slightly by 0.1% between 2018 and 2019.
- Taxable retail sales are projected to advance at annual rates of 4.5% throughout Puget Sound and 4.3% throughout King County between 2018 and 2020.
- The number of housing permits issued is expected to decline at annual rates by 8.6% throughout Puget Sound and 10.8% throughout King County between 2018 and 2020.
- Personal income in King County is expected to increase by annual rates of 4.6% between 2018 and 2020.

Since the adoption of the 2019 budget, revenues have come in above projected levels. Retail sales tax and development fees are higher than expected. At this time, we are recommending that no budget changes be made in any of the City's revenue sources.

During 2018 the fund balance in the General Fund, excluding the Revenue Stabilization, increased by \$3,367,818 to \$17,817,459. The total fund balance includes committed, assigned, and unassigned balances. The City's Reserve policy for the General Fund requires a Cash Flow Reserve of \$3,000,000, a budgeted biennium operating contingency of 2% operating revenues \$1,774,000, and a budgeted biennium insurance reserve of \$510,000 equaling a total required reserve of \$5,291,000. This required reserve level represents 11.8% of the 2019 General Fund budgeted expenditures excluding transfers out of \$44,923,367. The City currently maintains reserves that are more than three times the required level of reserves.

Requests for Information

The financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City of Shoreline Administrative Services Director, 17500 Midvale Ave N., Shoreline, WA 98133-4905.

**CITY OF SHORELINE
STATEMENT OF NET POSITION
December 31, 2018**

MCAG No. 1015

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and Cash Equivalents	\$ 1,908,465	\$ 731,503	\$ 2,639,967
Investments	\$ 33,874,490	\$ 3,049,862	\$ 36,924,352
Receivables:			
Taxes	\$ 256,545	\$ -	\$ 256,545
Accounts	\$ 1,766,086	\$ 146,863	\$ 1,912,949
Interest	\$ 83,342	\$ 5,889	\$ 89,231
Due from Other Governments	\$ 4,144,721	\$ 99,710	\$ 4,244,431
Prepayments	\$ 201,596	\$ 41,725	\$ 243,321
Notes/Contracts Receivable	\$ 24,971	\$ -	\$ 24,971
Interfund Loan Receivable	\$ 2,100,000	\$ -	\$ 2,100,000
Land	\$ 135,528,746	\$ 23,632	\$ 135,552,379
Construction in Progress	\$ 67,950	\$ 1,790,200	\$ 1,858,150
Capital Assets Net of Accumulated Depreciation:			
Buildings	\$ 31,856,173	\$ -	\$ 31,856,173
Improvements Other than Buildings	\$ 13,692,863	\$ 375,933	\$ 14,068,796
Machinery and Equipment	\$ 1,873,515	\$ 237,308	\$ 2,110,823
Infrastructure	\$ 151,644,455	\$ 15,626,522	\$ 167,270,977
Total capital assets	\$ 334,663,702	\$ 18,053,595	\$ 352,717,298
Total assets	\$ 379,023,918	\$ 22,129,148	\$ 401,153,066
DEFERRED OUTFLOWS of RESOURCES			
Deferred Outflows - Pension	\$ 1,451,783	\$ 201,774	\$ 1,653,557
Total Assets and Deferred Outflows of Resources	\$ 380,475,701	\$ 22,330,922	\$ 402,806,623
LIABILITIES			
Current Liabilities:			
Accounts Payable	\$ 1,323,492	\$ 274,326	\$ 1,597,818
Salaries, Taxes & Benefits Payable	\$ 676,752	\$ 114,053	\$ 790,805
Interest Payable	\$ 106,725	\$ 6,196	\$ 112,921
Retainage Payable	\$ 139,157	\$ 1,424	\$ 140,581
Deposits	\$ 87,894	\$ 38	\$ 87,932
Interfund Loan Payable	\$ 2,100,000	\$ -	\$ 2,100,000
Due to Other Governments	\$ 1,466,160	\$ 227,079	\$ 1,693,239
Noncurrent Liabilities:			
Due Within One Year	\$ 2,345,000	\$ 816,308	\$ 3,161,308
Due in More Than One Year	\$ 23,834,951	\$ 2,588,867	\$ 26,423,818
Due in More Than One Year-Net Pension Liability	\$ 5,537,976	\$ 958,946	\$ 6,496,922
Total liabilities	\$ 37,618,108	\$ 4,987,236	\$ 42,605,344
DEFERRED INFLOWS of RESOURCES			
Deferred inflows - Pension	\$ 2,165,832	\$ 373,863	\$ 2,539,695
Deferred inflows - Loss on Refunding	\$ 23,974	\$ -	\$ 23,974
Deferred inflows - Other	\$ 312,470	\$ -	\$ 312,470
Total deferred inflows of resources	\$ 2,502,275	\$ 373,863	\$ 2,876,138
NET POSITION			
Net investment in Capital Assets	\$ 309,670,503	\$ 14,804,084	\$ 324,474,588
Restricted			
Parks Impact Fee	\$ 31,781	\$ -	\$ 31,781
State Drug Enforcement Seizures	\$ 73,884	\$ -	\$ 73,884
Fed Drug Enforcement Seizures	\$ 22,252	\$ -	\$ 22,252
Transportation Impact Fees	\$ 3,148,687	\$ -	\$ 3,148,687
Debt Service	\$ 892	\$ -	\$ 892
Capital Improvements	\$ 1,464,146	\$ -	\$ 1,464,146
Unrestricted	\$ 25,943,174	\$ 2,165,738	\$ 28,108,912
Total net position	\$ 340,355,317	\$ 16,969,823	\$ 357,325,140

**CITY OF SHORELINE
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2018**

MCAG No. 1015

Function/Program	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities							
General Government Services	\$ 14,201,235	\$ 3,023,046	\$ 1,241,340	\$ 22,013	\$ (9,914,836)	\$ (9,914,836)	
Public Safety	\$ 16,065,345	\$ 532,319	\$ 476,147	\$ -	\$ (15,056,879)	\$ (15,056,879)	
Utilities	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Transportation	\$ 13,270,767	\$ 1,264,601	\$ 2,084,877	\$ 1,329,915	\$ (8,591,375)	\$ (8,591,375)	
Natural & Economic Environment	\$ 3,137,505	\$ 3,095,980	\$ 588,230	\$ -	\$ 546,705	\$ 546,705	
Culture and Recreation	\$ 7,577,258	\$ 1,979,164	\$ 151,301	\$ 20,486	\$ (5,426,306)	\$ (5,426,306)	
Interest on Long-Term Debt	\$ 1,341,136				\$ (1,341,136)	\$ (1,341,136)	
Total Governmental Activities	\$ 55,593,246	\$ 9,895,111	\$ 4,541,894	\$ 1,372,414	\$ (39,783,827)	\$ (39,783,827)	
Business-Type Activities							
Surface Water & Wastewater	\$ 6,430,626	\$ 7,621,979	\$ 50,292	\$ 81,685	\$ 1,323,330	\$ 1,323,330	
Total Business-Type Activities	\$ 6,430,626	\$ 7,621,979	\$ 50,292	\$ 81,685	\$ 1,323,330	\$ 1,323,330	
General Revenues:							
Taxes							
Property Taxes, Levied for General Purposes					\$ 12,644,231	\$ -	\$ 12,644,231
Property Taxes, Levied for 2006 GO Bond					\$ 1,673,830	\$ -	\$ 1,673,830
Retail Sales Taxes					\$ 12,375,399	\$ -	\$ 12,375,399
Business Taxes					\$ 5,072,978	\$ -	\$ 5,072,978
Excise Taxes					\$ 4,222,103	\$ -	\$ 4,222,103
Utility Contract Payment					\$ 2,135,311	\$ -	\$ 2,135,311
Investment Earnings					\$ 590,807	\$ 39,714	\$ 630,522
Miscellaneous					\$ 559,719	\$ 44,900	\$ 604,619
Gain from Sale of Capital Assets					\$ 271,795	\$ -	\$ 271,795
Insurance Recovery					\$ 5,902	\$ 1,870	\$ 7,772
Proceeds from Street Vacation					\$ -	\$ -	\$ -
Transfers					\$ 641,821	\$ (641,821)	\$ (0)
Special Items					\$ -	\$ -	\$ -
Total General Revenues, Special Items, and Transfers					\$ 40,193,898	\$ (555,337)	\$ 39,638,561
Change in Net Position							
					\$ 410,071	\$ 767,994	\$ 1,178,064
Net Position - Beginning of Year							
Prior Period Adjustment					\$ 339,945,246	\$ 16,201,829	\$ 356,147,076
Prior Period Adjustment - Capital Asset Correction					\$ -	\$ -	\$ -
Net Position - End of Year					\$ 340,355,317	\$ 16,969,823	\$ 357,325,140

The accompanying notes are an integral part of this statement.

**CITY OF SHORELINE
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2018**

MCAG No. 1015

	General Fund	General Capital Fund	Roads Capital Fund	Other Governmental Funds	Total Governmental Funds
ASSETS and DEFERRED OUTFLOWS of RESOURCES					
Cash and cash equivalents	\$ 104,176	\$ 317,353	\$ 39,423	\$ 558,384	\$ 1,019,336
Investments	\$ 19,800,197	\$ 1,352,535	\$ 6,932,153	\$ 3,955,670	\$ 32,040,555
Receivables:					
Taxes	\$ 217,761	\$ -	\$ -	\$ 38,784	\$ 256,545
Accounts	\$ 1,689,376	\$ 375	\$ -	\$ 76,335	\$ 1,766,086
Interest	\$ 50,644	\$ 3,085	\$ 14,997	\$ 9,998	\$ 78,723
Interfund Loan	\$ 2,100,000	\$ -	\$ -	\$ -	\$ 2,100,000
Due from Other Governments	\$ 3,204,237	\$ 149,345	\$ 611,797	\$ 179,342	\$ 4,144,721
Prepayments	\$ 174,308	\$ 1,924	\$ 10,621	\$ 10,900	\$ 197,753
Notes/Contracts Receivable	\$ 24,971	\$ -	\$ -	\$ -	\$ 24,971
Assets held for resale	\$ -	\$ -	\$ -	\$ -	\$ -
Total assets	\$ 27,365,670	\$ 1,824,617	\$ 7,608,991	\$ 4,829,412	\$ 41,628,691
Deferred Outflows of Resources	\$ -	\$ -	\$ -	\$ -	\$ -
Total Assets and Deferred Outflows of Resources	\$ 27,365,670	\$ 1,824,617	\$ 7,608,991	\$ 4,829,412	\$ 41,628,691
LIABILITIES, DEFERRED INFLOWS of RESOURCES and FUND BALANCES:					
Liabilities:					
Accounts Payable	\$ 714,610	\$ 272,387	\$ 279,979	\$ 45,942	\$ 1,312,918
Salaries, Taxes & Benefits Payable	\$ 593,440	\$ 8,015	\$ 38,896	\$ 26,252	\$ 666,603
Retainage Payable	\$ 132,263	\$ 6,894	\$ -	\$ -	\$ 139,157
Unearned Revenues	\$ 958,320	\$ -	\$ -	\$ 160,658	\$ 1,118,978
Deposits	\$ 48,819	\$ -	\$ 39,075	\$ -	\$ 87,894
Interfund Loan Payable	\$ -	\$ 2,100,000	\$ -	\$ -	\$ 2,100,000
Due to Other Governments	\$ 1,432,956	\$ 383	\$ 1,813	\$ 4,036	\$ 1,439,188
Total Liabilities	\$ 3,880,409	\$ 2,387,680	\$ 359,762	\$ 236,887	\$ 6,864,738
Deferred Inflows of Resources					
Deferred inflows - Other	\$ 299,264	\$ -	\$ -	\$ -	\$ 299,264
Deferred inflows - Grants	\$ -	\$ -	\$ -	\$ -	\$ -
Deferred inflows - Property Tax	\$ 217,761	\$ -	\$ -	\$ -	\$ 217,761
Total Deferred Inflows	\$ 517,026	\$ -	\$ -	\$ -	\$ 517,026
Fund Balances:					
Nonspendable	\$ 174,308	\$ 1,924	\$ 10,621	\$ 10,900	\$ 197,753
Restricted	\$ -	\$ 125,775	\$ 1,338,371	\$ 3,277,495	\$ 4,741,641
Committed	\$ 10,441,777	\$ -	\$ -	\$ -	\$ 10,441,777
Assigned	\$ 4,234,000	\$ -	\$ 5,900,237	\$ 1,304,130	\$ 11,438,367
Unassigned	\$ 8,118,150	\$ (690,762)	\$ -	\$ -	\$ 7,427,388
Total Fund Balances	\$ 22,968,236	\$ (563,063)	\$ 7,249,229	\$ 4,592,525	\$ 34,246,927
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 27,365,670	\$ 1,824,617	\$ 7,608,992	\$ 4,829,412	\$ 41,628,691

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	333,279,413
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	1,080,194
Deferred outflows related to pension costs are not reported on fund balance sheets	1,451,783
Long-term liabilities, including bonds payable, are not due and payable in the current period and accordingly are not reported as fund liabilities.	(31,824,653)
Deferred Inflows for property taxes are deferred in funds.	243,340
Deferred inflows related to unamortized balances of deferred charges for refunding are not reported in fund balance sheets	(23,974)
Deferred Inflows for pensions are not reported on fund balance sheets	(2,165,832)
Internal service funds are used by management to charge the costs of fleet management and unemployment to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position.	4,068,120

Net Position of Governmental Activities	<u>\$ 340,355,318</u>
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The accompanying notes are an integral part of this statement.

CITY OF SHORELINE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended December 31, 2018

MCAG No. 1015

	General Fund	General Capital	Roads Capital	Other Governmental Funds	Total Governmental Funds
REVENUES					
Taxes	\$ 30,076,026	\$ 1,686,287	\$ 1,686,287	\$ 1,673,830	\$ 35,122,430
Licenses & Permits	\$ 5,157,336	\$ -	\$ 280	\$ -	\$ 5,157,616
Intergovernmental	\$ 4,450,972	\$ 145,035	\$ 1,205,216	\$ 1,823,521	\$ 7,624,744
Charges for Services	\$ 2,460,005	\$ -	\$ 841,641	\$ 940,517	\$ 4,242,163
Fines & Forfeits	\$ 470,486	\$ -	\$ -	\$ 1,050	\$ 471,536
Investment Earnings	\$ 344,243	\$ 27,207	\$ 108,972	\$ 66,469	\$ 546,890
Miscellaneous	\$ 1,397,210	\$ 122,013	\$ -	\$ 22,085	\$ 1,541,308
Total Revenues	\$ 44,356,279	\$ 1,980,542	\$ 3,842,395	\$ 4,527,472	\$ 54,706,688
EXPENDITURES					
Current:					
General Government Services	\$ 11,003,844	\$ 249,055	\$ -	\$ 83,511	\$ 11,336,411
Public Safety	\$ 16,103,233	\$ 26,236	\$ -	\$ 7,921	\$ 16,137,389
Utilities	\$ -	\$ -	\$ -	\$ -	\$ -
Transportation	\$ 2,777,256	\$ -	\$ 3,215,400	\$ 1,123,244	\$ 7,115,900
Natural & Economic Environment	\$ 3,464,441	\$ -	\$ -	\$ -	\$ 3,464,441
Culture & Recreation	\$ 6,321,190	\$ 2,212,582	\$ -	\$ 151,990	\$ 8,685,762
Debt Service:					\$ -
Principal				\$ 2,309,000	\$ 2,309,000
GO Bond Issuing Cost					\$ -
Interest and Other Related Costs	\$ -	\$ -	\$ -	\$ 1,304,967	\$ 1,304,967
Capital Expenditures:					\$ -
General Government	\$ 70,255	\$ -	\$ -	\$ -	\$ 70,255
Public Safety	\$ 30,969	\$ 2,837,796	\$ 50,550	\$ 46,473	\$ 2,965,788
Economic Environment	\$ -	\$ -	\$ -	\$ -	\$ -
Culture & Recreational	\$ 51,789	\$ -	\$ -	\$ -	\$ 51,789
Transportation	\$ -	\$ -	\$ 475,726	\$ -	\$ 475,726
Total Expenditures	\$ 39,822,975	\$ 5,325,670	\$ 3,741,676	\$ 5,027,106	\$ 53,917,427
Excess (Deficiency) of Revenues over Expenditures	\$ 4,533,303	\$ (3,345,128)	\$ 100,720	\$ (499,633)	\$ 789,262
OTHER FINANCING SOURCES (USES)					
Transfers In	\$ 1,833,395	\$ 1,323,402	\$ 739,617	\$ 1,838,554	\$ 5,734,968
Transfers Out	\$ (2,814,808)	\$ (686,047)	\$ (59,477)	\$ (1,326,954)	\$ (4,887,286)
Proceeds from Street Vacation	\$ 200,000				\$ 200,000
Proceeds from the Sale of Capital Assets	\$ 15,814	\$ 45,231	\$ -	\$ -	\$ 61,045
Insurance Recoveries	\$ 114	\$ -	\$ -	\$ 2,507	\$ 2,621
Total other financing sources and uses	\$ (765,486)	\$ 682,586	\$ 680,140	\$ 514,107	\$ 1,111,348
SPECIAL ITEMS					
Net Change in Fund Balances	\$ 3,767,818	\$ (2,662,542)	\$ 780,859	\$ 14,474	\$ 1,900,609
Fund balances - beginning	\$ 19,200,418	\$ 2,099,479	\$ 6,468,370	\$ 4,578,051	\$ 32,346,318
Fund balances - ending	\$ 22,968,236	\$ (563,063)	\$ 7,249,229	\$ 4,592,525	\$ 34,246,927

The accompanying notes are an integral part of this statement.

CITY OF SHORELINE
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2018

MCAG No. 1015

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

Net change in fund balances - total governmental funds

\$ 1,900,609

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded/ (were less than) depreciation in the current period.

(5,728,749)

The issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on the net position. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items

2,272,831

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds

335,065

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

1,631,078

Internal service funds are used by management to charge the costs of fleet management, management information systems, and unemployment to individual funds. The net revenue of certain activities of internal service funds is reported with governmental activities.

(763)

Change in net position of governmental activities

\$410,071

The accompanying notes are an integral part of this statement.

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND
For the Year Ended December 31, 2018

MCAG No. 1015

REVENUES	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Taxes	\$ 28,418,111	\$ 28,418,111	\$ 30,076,026	\$ 1,657,915
Licenses & Permits	\$ 4,820,117	\$ 4,820,117	\$ 5,157,336	\$ 337,219
Intergovernmental	\$ 4,778,612	\$ 5,838,064	\$ 4,450,972	\$ (1,387,092)
Charges for Services	\$ 2,196,620	\$ 2,224,520	\$ 2,460,005	\$ 235,485
Fines & Forfeits	\$ 404,000	\$ 404,000	\$ 470,486	\$ 66,486
Investment Earnings	\$ 69,000	\$ 69,000	\$ 344,243	\$ 275,243
Miscellaneous	\$ 1,215,053	\$ 1,215,053	\$ 1,397,210	\$ 182,157
Total revenues	\$ 41,901,513	\$ 42,988,865	\$ 44,356,279	\$ 1,367,414
EXPENDITURES				
General Government Services	\$ 11,709,379	\$ 13,155,363	\$ 11,003,844	\$ (2,151,519)
Public Safety	\$ 17,230,698	\$ 17,697,452	\$ 16,103,233	\$ (1,594,219)
Utilities	\$ -	\$ -	\$ -	\$ -
Transportation	\$ 3,353,406	\$ 3,456,595	\$ 2,777,256	\$ (679,339)
Natural & Economic Environment	\$ 3,578,961	\$ 3,736,852	\$ 3,464,441	\$ (272,411)
Culture & Recreation	\$ 6,367,314	\$ 7,090,027	\$ 6,321,190	\$ (768,837)
Redemption of Gen. L-T Debt	\$ -	\$ -	\$ -	\$ -
Int. & Other Debt Svc Costs	\$ -	\$ -	\$ -	\$ -
Capital Exps - General Government	\$ 70,255	\$ 70,255	\$ 70,255	\$ -
Capital Exps - Public Safety	\$ -	\$ -	\$ 30,969	\$ 30,969
Capital Exps - Economic Environment	\$ -	\$ -	\$ -	\$ -
Capital Exps - Transportation	\$ -	\$ -	\$ -	\$ -
Capital Exps - Culture and Recreation	\$ -	\$ -	\$ 51,789	\$ 51,789
Total expenditures	\$ 42,310,013	\$ 45,206,544	\$ 39,822,975	\$ (5,383,569)
Excess (Deficiency) of Revenues over Expenditures	\$ (408,500)	\$ (2,217,679)	\$ 4,533,303	\$ 6,750,982
OTHER FINANCING SOURCES (USES)				
Proceeds from Street Vacation	\$ -	\$ -	\$ 200,000	\$ 200,000
General Obligation Bond Proceeds	\$ -	\$ -	\$ -	\$ -
Premium on Bonds Issued	\$ -	\$ -	\$ -	\$ -
Transfers In	\$ 1,833,395	\$ 1,833,395	\$ 1,833,395	\$ -
Transfers Out	\$ (4,186,451)	\$ (4,202,736)	\$ (2,814,808)	\$ 1,387,928
Proceeds from the Sale of Capital Assets	\$ -	\$ -	\$ 15,814	\$ 15,814
Insurance Recoveries	\$ 15,000	\$ 15,000	\$ 114	\$ (14,886)
Total other financing sources and uses	\$ (2,338,056)	\$ (2,354,341)	\$ (765,486)	\$ 1,588,855
Net change in fund balances	\$ (2,746,556)	\$ (4,572,020)	\$ 3,767,818	\$ 8,339,838
Fund balances - beginning	\$ -	\$ -	\$ 19,200,418	\$ 19,200,418
Fund balances - ending	\$ (2,746,556)	\$ (4,572,020)	\$ 22,968,236	\$ 27,540,256

The accompanying notes are an integral part of this statement.

City of Shoreline, Washington
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
General Fund - Reconciliation
For the Year Ended December 31, 2018

	Budgeted Amounts		Actual Amounts	Variance to Final Budget
	Original	Final		
OTHER FINANCING SOURCES (USES):				
Operating Transfers In - General Fund, As Adopted	\$ 1,833,395	\$ 1,833,395	\$ 1,833,395	\$ -
Operating Transfers In - Revenue Stabilization Fund				\$ -
Operating Transfers In - General Fund, As Reported	<u>\$ 1,833,395</u>	<u>\$ 1,833,395</u>	<u>\$ 1,833,395</u>	<u>\$ -</u>
FUND BALANCES - BEGINNING				
General Fund, As Adopted	\$ -	\$ -	\$ 14,049,641	\$ 14,049,641
Revenue Stabilization Fund	-	-	5,150,777	\$ 5,150,777
Beginning Fund Balances - General Fund, As Reported	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 19,200,418</u>	<u>\$ 19,200,418</u>
FUND BALANCES - ENDING				
General Fund, As Adopted	\$ (2,731,556)	\$ (4,566,069)	\$ 17,817,459	\$ 22,383,528
Revenue Stabilization Fund	-	-	5,150,777	\$ 5,150,777
Property Tax Equalization Fund	-	-	-	\$ -
Ending Fund Balance - General Fund, As Reported	<u>\$ (2,731,556)</u>	<u>\$ (4,566,069)</u>	<u>\$ 22,968,236</u>	<u>\$ 27,534,305</u>

CITY OF SHORELINE
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
December 31, 2018

MCAG No. 1015

	Business-Type Activities			Governmental Activities
	Surface Water Utility Fund	Wastewater Utility Fund	Total Enterprise Funds	Internal Service Funds
ASSETS and DEFERRED OUTFLOWS of RESOURCES				
Current Assets:				
Cash and cash equivalents	\$ 687,218.36	\$ 44,284.51	\$ 731,502.87	\$ 889,128.73
Investments	\$ 2,768,339.69	\$ 281,522.01	\$ 3,049,861.70	\$ 1,833,934.94
Receivables				
Taxes	\$ -	\$ -	\$ -	\$ -
Accounts	\$ 146,863.42	\$ -	\$ 146,863.42	\$ -
Interest	\$ 5,180.87	\$ 707.97	\$ 5,888.84	\$ 4,618.86
Due from Other Governments	\$ 99,710.41	\$ -	\$ 99,710.41	\$ -
Prepayments	\$ 21,068.13	\$ 20,656.71	\$ 41,724.84	\$ 3,842.87
Total current assets	\$ 3,728,380.88	\$ 347,171.20	\$ 4,075,552.08	\$ 2,731,525.40
Noncurrent Assets:				
Interfund Loan Receivable	\$ -	\$ -	\$ -	\$ -
Capital assets not being depreciated:				
Land	\$ 23,632.33	\$ -	\$ 23,632.33	\$ -
Construction in Progress	\$ 1,790,200.13	\$ -	\$ 1,790,200.13	\$ -
Capital assets being depreciated:				
Buildings	\$ -	\$ -	\$ -	\$ -
Improvements other than buildings	\$ 375,933.17	\$ -	\$ 375,933.17	\$ -
Machinery & Equipment	\$ 46,870.74	\$ 190,437.42	\$ 237,308.16	\$ 1,384,289.65
Infrastructure	\$ 15,626,521.67	\$ -	\$ 15,626,521.67	\$ -
Total capital assets (net)	\$ 17,863,158.04	\$ 190,437.42	\$ 18,053,595.46	\$ 1,384,289.65
Total noncurrent assets	\$ 17,863,158.04	\$ 190,437.42	\$ 18,053,595.46	\$ 1,384,289.65
TOTAL ASSETS	\$ 21,591,538.92	\$ 537,608.62	\$ 22,129,147.54	\$ 4,115,815.05
DEFERRED OUTFLOWS of RESOURCES				
Deferred Outflows - Pension	\$ 128,172.00	\$ 73,602.00	\$ 201,774.00	\$ -
LIABILITIES				
Current Liabilities:				
Accounts Payable	\$ 206,963.72	\$ 67,362.70	\$ 274,326.42	\$ 10,574.11
Salaries, Taxes & Benefits Payable	\$ 59,090.02	\$ 54,962.73	\$ 114,052.75	\$ 10,148.63
Public Works Trust Fund Loan Payable	\$ 326,474.72	\$ -	\$ 326,474.72	\$ -
2016 Revenue Bonds Payable	\$ 489,833.15	\$ -	\$ 489,833.15	\$ -
Interest Payable	\$ 6,195.76	\$ 38.00	\$ 6,233.76	\$ -
Retainage Payable	\$ 1,423.87	\$ -	\$ 1,423.87	\$ -
Unearned Revenues	\$ -	\$ -	\$ -	\$ -
Due to Other Funds	\$ -	\$ -	\$ -	\$ 26,972.72
Due to Other Governments	\$ 8,355.86	\$ 218,722.69	\$ 227,078.55	\$ -
Custodial Accounts	\$ -	\$ -	\$ -	\$ -
Total current liabilities	\$ 1,098,337.10	\$ 341,086.12	\$ 1,439,423.22	\$ 47,695.46
Noncurrent Liabilities:				
Compensated Absences Payable	\$ 67,661.99	\$ 88,001.39	\$ 155,663.38	\$ -
2016 Revenue Bonds Payable	\$ 1,780,253.85	\$ -	\$ 1,780,253.85	\$ -
Public Works Trust Fund Loan Payable	\$ 652,949.43	\$ -	\$ 652,949.43	\$ -
Net Pension Liability	\$ 493,766.00	\$ 465,180.00	\$ 958,946.00	\$ -
Total noncurrent liabilities	\$ 2,994,631.27	\$ 553,181.39	\$ 3,547,812.66	\$ -
TOTAL LIABILITIES	\$ 4,092,968.37	\$ 894,267.51	\$ 4,987,235.88	\$ 47,695.46
DEFERRED INFLOWS of RESOURCES				
Deferred Inflows - Pension	\$ 193,074.00	\$ 180,789.00	\$ 373,863.00	\$ -
NET POSITION				
Net Investment in Capital Assets	\$ 14,613,646.89	\$ 190,437.42	\$ 14,804,084.31	\$ 1,384,289.65
Restricted for	\$ -	\$ -	\$ -	\$ -
Unrestricted	\$ 2,820,021.66	\$ (654,283.31)	\$ 2,165,738.35	\$ 2,683,829.94
TOTAL NET POSITION	\$ 17,433,668.55	\$ (463,845.89)	\$ 16,969,822.66	\$ 4,068,119.59

The accompanying notes are an integral part of this statement.

CITY OF SHORELINE
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
For the Year Ended December 31, 2018

MCAG No. 1015

	Business-Type Activities			Governmental Activities
	Surface Water Utility Fund	Wastewater Utility Fund	Total Enterprise Funds	Internal Service Funds
OPERATING REVENUES:				
Charges for Services	\$ 5,704,729.18	\$ 1,917,249.97	\$ 7,621,979.15	\$ 879,330.00
Total operating revenues	<u>\$ 5,704,729.18</u>	<u>\$ 1,917,249.97</u>	<u>\$ 7,621,979.15</u>	<u>\$ 879,330.00</u>
OPERATING EXPENSES:				
Administration and General Operations	\$ 2,868,846.35	\$ 988,072.41	\$ 3,856,918.76	\$ 403,564.72
Maintenance and Operations	\$ 589,847.84	\$ 1,412,020.02	\$ 2,001,867.86	\$ 54,136.24
Depreciation	\$ 461,797.63	\$ 22,320.23	\$ 484,117.86	\$ 274,537.79
Total operating expenses	<u>\$ 3,920,491.82</u>	<u>\$ 2,422,412.66</u>	<u>\$ 6,342,904.48</u>	<u>\$ 732,238.75</u>
Operating income	<u>\$ 1,784,237.36</u>	<u>\$ (505,162.69)</u>	<u>\$ 1,279,074.67</u>	<u>\$ 147,091.25</u>
NONOPERATING REVENUES (EXPENSES)				
Interest Income	\$ 34,092.70	\$ 5,621.77	\$ 39,714.47	\$ 43,975.28
Miscellaneous	\$ 44,899.95	\$ -	\$ 44,899.95	\$ -
Interest and Other Related Costs	\$ (87,721.10)	\$ -	\$ (87,721.10)	\$ -
Intergovernmental	\$ 131,976.69	\$ -	\$ 131,976.69	\$ -
Total Nonoperating revenues (expenses)	<u>\$ 123,248.24</u>	<u>\$ 5,621.77</u>	<u>\$ 128,870.01</u>	<u>\$ 43,975.28</u>
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	<u>\$ 1,907,485.60</u>	<u>\$ (499,540.92)</u>	<u>\$ 1,407,944.68</u>	<u>\$ 191,066.53</u>
Capital Contributions - Other Governments	\$ -	\$ -	\$ -	\$ -
Gain/(Loss) from Sale of Capital Assets	\$ -	\$ -	\$ -	\$ 10,750.53
Insurance Recovery	\$ 1,869.82	\$ -	\$ 1,869.82	\$ 3,281.12
Transfers In	\$ 68,489.00	\$ -	\$ 68,489.00	\$ 42,655.00
Transfers Out	\$ (710,310.00)	\$ -	\$ (710,310.00)	\$ (248,516.00)
Special/Extraordinary Items	\$ -	\$ -	\$ -	\$ -
CHANGE IN NET POSITION	<u>\$ 1,267,534.42</u>	<u>\$ (499,540.92)</u>	<u>\$ 767,993.50</u>	<u>\$ (762.82)</u>
NET POSITION				
Total unassigned net position - beginning	\$ 16,166,134.13	\$ 35,695.03	\$ 16,201,829.16	\$ 4,068,882.41
Total unassigned net position - ending	<u>\$ 17,433,668.55</u>	<u>\$ (463,845.89)</u>	<u>\$ 16,969,822.66</u>	<u>\$ 4,068,119.59</u>

The accompanying notes are an integral part of this statement.

**CITY OF SHORELINE
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2018**

MCAG No. 1015

	Business-Type Activities			Governmental Activities
	Surface Water Utility Fund	Wastewater Utility Fund	Total Enterprise Funds	Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	\$5,704,644	\$1,922,892	\$7,627,536	
Receipts from interfund services provided				\$879,330
Payments to suppliers	(\$2,036,215)	(\$413,570)	(\$2,449,785)	(\$222,242)
Payments to employees	(\$1,484,504)	(\$1,508,258)	(\$2,992,763)	(\$231,196)
Payments for interfund services used	(\$216,458)	(\$55,840)	(\$272,298)	
Net cash provided by operating activities	\$1,967,466	(\$54,776)	\$1,912,690	\$425,891
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Operating grants	\$54,083		\$54,083	
Interfund loan receivable	\$565,604		\$565,604	
Transfers from other funds	\$68,489		\$68,489	
Transfers to other funds	(\$510,351)		(\$510,351)	(\$248,516)
Miscellaneous revenues	\$44,900		\$44,900	
Net cash provided (used) by noncapital activities	\$222,725		\$222,725	(\$248,516)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Proceeds from capital debt	\$500,000		\$500,000	
Acquisition and construction of capital assets	(\$552,811)	(\$34,196)	(\$587,007)	(\$250,049)
Principal paid on capital debt	(\$442,760)		(\$442,760)	
Interest paid on capital debt	(\$88,296)		(\$88,296)	
Insurance recovery	\$1,870		\$1,870	\$3,281
Transfers from other funds				\$42,655
Transfers to other funds	(\$199,959)		(\$199,959)	
Proceeds from sale of capital assets				\$10,751
Net cash provided (used) by capital and related financing	(\$781,956)	(\$34,196)	(\$816,152)	(\$193,362)
CASH FLOWS FROM INVESTING ACTIVITIES				
Receipts of investment income	\$34,579	\$5,726	\$40,305	\$44,881
Proceeds from the sale of investments	\$6,149,305	\$1,185,979	\$7,335,284	\$5,923,504
Purchase of investments	(\$6,953,879)	(\$1,112,683)	(\$8,066,562)	(\$5,121,871)
Net cash provided by investing activities	(\$769,995)	\$79,022	(\$690,973)	\$846,514
 Net increase (decrease) in cash and cash equivalents	 \$638,241	 (\$9,950)	 \$628,291	 \$830,527
Cash and cash equivalents, January 1	\$48,978	\$54,235	\$103,213	\$58,602
Cash and cash equivalents, December 31	\$687,218	\$44,285	\$731,503	\$889,129
 Reconciliation of operating income to net cash provided (used) by operating activities:				
Operating Income (Loss)	\$1,784,237	(\$505,163)	\$1,279,075	\$147,091
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities:				
Depreciation expense	\$461,798	\$22,320	\$484,118	\$274,538
(Increase) Decrease in accounts receivable	\$22,601	\$5,642	\$28,244	
(Increase) Decrease in delinquent fee receivable	(\$25,201)		(\$25,201)	
(Increase) Decrease in due from other government	\$2,515		\$2,515	
(Increase) Decrease in prepaids	(\$5,398)	(\$1,543)	(\$6,941)	(\$185)
(Increase) Decrease in deferred outflows - pension	\$14,147	(\$52,359)	(\$38,212)	
Increase (Decrease) in wages and benefits payable	\$14,827	\$6,488	\$21,314	\$1,865
Increase (Decrease) in accounts payable	(\$187,121)	\$52,280	(\$134,841)	(\$6,184)
Increase (Decrease) in intergovernmental payables	(\$44,507)	(\$27,719)	(\$72,226)	\$8,767
Increase (Decrease) in compensated absences payable	\$20,131	(\$21,988)	(\$1,857)	
Increase (Decrease) in net pension liability	(\$174,207)	\$311,398	\$137,191	
Increase (Decrease) in deferred inflows - pension	\$83,644	\$155,867	\$239,511	
Total adjustments	\$183,229	\$450,387	\$633,615	\$278,800
Net cash provided by operating activities	\$1,967,466	(\$54,776)	\$1,912,690	\$425,891
 Noncash investing, capital, and financing activities:				
Increase (Decrease) in fair value of investments	\$398	\$231	\$630	\$2,556

The accompanying notes are an integral part of this statement.

**CITY OF SHORELINE, WASHINGTON
STATEMENT OF NET POSITION**

**FIDUCIARY FUNDS
DECEMBER 31, 2018**

MCAG No. 1015

	AGENCY FUND
ASSETS and DEFERRED OUTFLOWS of RESOURCES	
Current Assets:	
Cash and cash equivalents	\$ 382,377
TOTAL ASSETS	\$ 382,377
DEFERRED OUTFLOWS of RESOURCES	
TOTAL DEFERRED OUTFLOWS of RESOURCES	-
LIABILITIES	
Current Liabilities:	
Accounts Payable	\$ 1,044.50
Deposits	\$ 380,138.75
Due to Other Governments	\$ 1,194.00
TOTAL LIABILITIES	\$ 382,377.25
DEFERRED INFLOWS of RESOURCES	
TOTAL DEFERRED INFLOWS of RESOURCES	-
TOTAL NET POSITION	\$ -

The accompanying notes are an integral part of this statement.

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. REPORTING ENTITY

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

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

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

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

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

The Government-Wide Financial Statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied.

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

Retail Sales and Use Taxes: Accounting for Taxpayer-Assessed Tax Revenues in Governmental Funds, requires that revenues from taxpayer-assessed taxes such as sales taxes, net of estimated refunds, should be recognized in the accounting period in which they become susceptible to accrual - that is, when they become both measurable and available to finance expenditures of the fiscal period. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period.

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

The City reports the following major governmental funds:

General Fund

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

General Capital Improvement Fund

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

Roads Capital Improvement Fund

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

The City reports the following major proprietary funds:

Surface Water Utility Enterprise Fund

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

Wastewater Utility Fund

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

Additionally, the City reports the following fund types:

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

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

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

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

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

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the surface water utility fund are surface water utility fees. The primary operating revenues of the internal service funds are interfund charges for services. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

D. BUDGETARY INFORMATION

1. Budgetary Basis of Accounting

Annual appropriated budgets are adopted for the general, special revenue, debt service, internal service, and proprietary funds on the modified accrual basis of accounting and constitute the legal authority for expenditures. The appropriated budget is prepared by fund, and department. Appropriations in all budgeted funds lapse at the end of the fiscal year even if they have related encumbrances. Encumbrances are commitments related to unperformed (executory) contracts for goods or services (i.e., purchase orders, contracts, and commitments).

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

2. Amending the Budget

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

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

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

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

3. Deficit Fund Net Position

During 2018, the Roads Capital Projects Fund incurred a net fund deficit of \$563,063. This occurred because the sale of the former police station, which was to have partially funded the Police Station at City Hall project, was delayed. In consequence, the City Council authorized an interfund loan of \$2.1 million to provide adequate cash flow to the fund. The City is anticipating closing the \$2.45 million sale of the former station in 2019. With all the proceeds planned for the Capital Projects Fund, the fund deficit will be eliminated.

During 2018, the Wastewater Utility Fund incurred a net position deficit of \$463,846. Most of the deficit was the result of a GASBS No. 68 year-end adjustment of \$414,906 to pension expense. See Note 16: Related Party Transactions for additional details. Since the Ronald Wastewater District has a net position which far exceeds the deficit in the Wastewater Utility Fund and the City is set to assume the District, it is anticipated that the Wastewater Utility Fund's net position will increase significantly upon assumption. With the assumption, the deficit will be eliminated, and a strong net position established.

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

1. Cash and Cash Equivalents

As of December 31, 2018, the City was holding \$3,022,345 in cash and cash equivalents, of which \$382,377 belonged to the Fiduciary Fund. The amounts reported as cash and cash equivalents also include compensating balances maintained with certain banks in lieu of payments for services rendered. The average compensating balances maintained during 2018 were approximately \$3,408,788.

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

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

3. Receivables

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

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

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

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as interfund loans receivable/payable. An interfund loan was issued in 2018, totaling \$2,100,000. It was due from the General Capital Projects Fund to the General Fund. All other outstanding balances between funds are reported as due to/from other funds. For more information regarding interfund loans are disclosed in Note 13, Interfund Receivables, Payables and Transfers.

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

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

5. Capital Assets

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

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

The costs for normal maintenance and repairs are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. With the early implementation of GASBS No. 89, *Accounting for Interest Cost Incurred before the End of Construction Period*, interest incurred during the construction phase of the capital assets of business-type activities is no longer included as part of the capitalized value of the assets.

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

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

See Note 4 *Capital Assets* for additional information.

6. Pensions

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

7. Deferred Outflows

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

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

8. Compensated Absences

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

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

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

9. Other Accrued Liabilities

These accounts consist of accrued wages and accrued employee benefits.

10. Long-Term Debt (See Note 11 - Long Term Debt)

11. Unearned Revenues

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

12. Deferred Inflows

In addition to liabilities, the statement of financial position reports a separate section for the deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to future period(s) and will not be recognized as an inflow of resources (revenues) until that time. Unavailable

revenues from prepayments and property taxes are reported as deferred inflows on the governmental fund statements. Only the unavailable revenues from non-property tax sources are included in the government-wide statements. This amount is deferred and recognized as an inflow of resources in the period when the amounts become available. The City also recognizes deferred inflow of resources relating to its pension plans.

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

13. Fund Balance Classifications

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

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

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

14. Fund Balance Details

Fund balances in the governmental funds at December 31, 2018 were as follows:

Fund Balance Components	Fund	Details	Amount	Total
Nonspendable Fund Balance	General	Prepaid Expenditures	\$ 174,308	\$ 197,753
	General Capital	Prepaid Expenditures	1,924	
	Roads Capital	Prepaid Expenditures	10,621	
	Other Governmental	Prepaid Expenditures	10,900	
Restricted Fund Balance	General Capital	Restricted for 2013 GO Bond projects	125,775	4,741,642
	Other Governmental	Restricted for police use only	96,136	
	Other Governmental	Restricted for parks	31,781	
	Other Governmental	Restricted for 2006 UTGO Bond Payments	892	
	Other Governmental	Restricted for transportation	3,148,687	
	Roads Capital	Restricted for transportation	1,338,371	
Committed Fund Balance	General	Cash Flow Reserve	3,000,000	10,441,777
	General	Revenue Stabilization	5,150,777	
	General	Budget Contingency	1,774,000	
	General	Insurance Reserves	510,000	
	General	Imprest Cash	7,000	
Assigned Fund Balance	General	Available Fund Balance	4,234,000	11,438,366
	Other Governmental	Available Fund Balance	1,304,129	
	Roads Capital	Available Fund Balance	5,900,237	
Unassigned	General	Remaining Fund Balance	8,118,151	7,427,389
	General Capital	Deficit Fund Balance	(690,762)	
Total Fund Balances			\$ 34,246,927	\$ 34,246,927

15. Minimum Fund Balances

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

General Fund Operating Reserves

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

1. Cash Flow Reserve: The City shall maintain a cash flow reserve within the General Fund in an amount equal to \$3,000,000. The City will review annually the required cash flow reserve level that is necessary to meet the City's cash flow needs. If it is determined that \$3,000,000 is not adequate, the Finance Director shall propose an amendment to these policies.
2. Revenue Stabilization Reserve: the City shall maintain a revenue stabilization reserve of \$5,150,777 equal to thirty percent (30%) of annual economically sensitive revenues within the City's operating budget to cover revenue shortfalls resulting from unexpected economic changes or recessionary periods.
3. Budget Contingency: The City shall maintain a budget contingency reserve within the General Fund equal to 2% of budgeted operating revenues.
4. Insurance Deductible Reserve: The City shall maintain an insurance reserve within the General Fund to be used for potential substantial events that cause damage to the City's fixed assets and/or infrastructure.

Equipment and Vehicle Replacement Reserves

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

City Street Fund Reserves

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

Surface Water Utility Fund Reserves

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

Note 2 - DEPOSITS AND INVESTMENTS

A. DEPOSITS

At December 31, 2018, cash on hand was \$2,632,967, excluding \$382,377 on hand for the fiduciary fund. The carrying amount of the City's deposits was \$3,015,345 and the bank balance was \$4,063,570.

Custodial Credit Risk: Custodial credit risk for deposits is the risk that, in event of a failure of a depository financial institution, the city would not be able to recover deposits or will not be able to recover collateral securities that are in possession of an outside party. The city deposits and certificates of deposit are mostly covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

B. INVESTMENTS

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

Investment Type	Fair Value	Maturities Less Than 1 Year	Maturities 1 to 3 Year
U.S. Treasuries	\$ 990,391	\$ 990,391	\$ -
U.S. Agencies	23,811,833	14,896,707	8,915,126
Total	\$ 24,802,224	\$ 15,887,098	\$ 8,915,126

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

Investment Type	Fair Value	Aaa
U.S. Treasuries	\$ 990,391	\$ 990,391
U.S. Agencies	23,811,833	23,811,833
Total	\$ 24,802,224	\$ 24,802,224

Rating agency: Moody's

Investments in Local Government Investment Pool (LGIP)

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

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

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

As of December 31, 2018, the City's investment in the LGIP totaled of \$12,122,128.

Investments Measured at Fair Value

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

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

At December 31, 2018, the City had the following investments measured at fair value:

Fair Value Measurements Using:				
Investments by Fair Value Level	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Federal Agency Obligations	\$ 23,811,833	\$ 23,811,833		
Federal Treasury Obligations	990,391	990,391		
Total Investments by Fair Value Level	\$ 24,802,224	\$ 24,802,224	\$ -	\$ -

Summary of Deposit and Investment Balances

Reconciliation of city's deposits and investment balances as of December 31, 2018, is as follows:

	Government Wide	Fiduciary Funds
Cash on Hand	\$ 2,632,967	\$ 382,377
Deposits in State LGIP	12,122,128	
Non-Pooled Investments	24,802,224	
Total Deposits and Investments	\$ 39,557,319	\$ 382,377

Note 3 - PROPERTY TAXES

The 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.
April 30	First of two equal installment payments is due.
May 31	Assessed value of property established for next year's levy at 100 percent of market value
October 31	Second installment is due

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

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

The City's regular levy for 2018 was \$1.26752 per \$1,000 on an assessed valuation of \$10,133,798,465 for a total regular levy of \$12,844,792.

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

Special levies approved by the voters are not subject to the limitations listed above. In 2018, the City levied an additional \$0.16932 per \$1,000 for a total additional levy of \$1,697,958 towards repayment of the 2016 General Obligation bonds which refunded the 2006 General Obligation bonds issued for open space and the construction of park and trail improvements.

Note 4 – CAPITAL ASSETS AND DEPRECIATION

A. Capital asset activity for the year ended December 31, 2018 was as follows:

Governmental Activities	Beginning Balance 01/01/18	Increases	Decreases	Ending Balance 12/31/18
Capital Assets, not being depreciated:				
Land	135,515,537	13,210	-	135,528,746
Construction in Progress	4,143,567	3,355,717	(7,431,333)	67,950
Total Capital Assets, not being depreciated:	139,659,103	3,368,926	(7,431,333)	135,596,696
Capital Assets, being depreciated:				
Buildings	41,848,650	6,734,900	-	48,583,550
Improvements other than buildings	22,797,792	-	-	22,797,792
Machinery and equipment	4,154,235	418,566	(198,706)	4,374,095
Infrastructure	266,687,532	526,276	-	267,213,808
Total Capital Assets, being depreciated:	335,488,210	7,679,741	(198,706)	342,969,245
Less Accumulated Depreciation for:				
Buildings	(15,412,300)	(1,315,077)	-	(16,727,377)
Improvements other than buildings	(7,223,294)	(937,627)	-	(8,160,922)
Machinery and equipment	(2,336,886)	(364,077)	190,692	(2,510,271)
Infrastructure	(108,733,880)	(6,801,294)	-	(115,535,174)
Total Accumulated Depreciation	(133,706,360)	(9,418,076)	190,692	(142,933,743)
Total Capital Assets, being depreciated, net	201,781,850	(1,738,335)	(8,014)	200,035,502
Governmental Activities Capital Assets, net	341,440,953	1,630,592	(7,439,347)	335,632,198

Business-Type Activities	Beginning Balance 01/01/18	Increases	Decreases	Ending Balance 12/31/18
Capital Assets, not being depreciated:				
Land	\$ 23,632	\$ -	\$ -	\$ 23,632
Construction in Progress	1,716,822	73,378	-	1,790,199
Total Capital Assets, not being depreciated:	1,740,454	73,378	-	1,813,831
Capital Assets, being depreciated:				
Improvements other than buildings	399,929	-	-	399,929
Machinery and equipment	336,947	64,386	-	401,333
Infrastructure	21,647,561	440,293	-	22,087,854
Total Capital Assets, being depreciated:	22,384,437	504,679	-	22,889,116
Less Accumulated Depreciation for:				
Improvements other than buildings	(15,997)	(7,999)	-	(23,996)
Machinery and equipment	(131,528)	(32,497)	-	(164,025)
Infrastructure	(6,017,710)	(443,622)	-	(6,461,332)
Total Accumulated Depreciation	(6,165,235)	(484,118)	-	(6,649,353)
Total Capital Assets, being depreciated, net	16,219,202	20,561	-	16,239,763
Business-type activities Capital Assets, net	\$ 17,959,656	\$ 93,939	\$ -	\$ 18,053,594

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

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

Governmental Activities:	
General Government	\$ 1,139,805
Public Safety	48,036
Natural and Economic Environment	-
Transportation	6,747,068
Culture & Recreational	1,208,630
Capital assets held by the City's internal service funds are charged to the various functions based on their usage of the assets	274,538
Total Depreciation - Governmental Activities	\$ 9,418,076

Business-Type Activities	
Surface Water Utility	\$ 461,798
Storm Water Utility	22,320
Total Depreciation - Business-Type Activities	\$ 484,118

Note 5 – OTHER RESTRICTED NET POSITION

The government-wide statement of net position reported \$4,741,641 in restricted net position, of which \$4,741,641 is restricted by enabling legislation.

Note 6 - PENSION PLANS

The following table represents the aggregate pension amounts for all plans subject to the requirements of the [*GASB Statement 68, Accounting and Financial Reporting for Pensions*](#) for the year 2018:

Aggregate Pension Amounts – All Plans	
Pension liabilities	(\$6,496,922)
Deferred outflows of resources	\$1,653,557
Deferred inflows of resources	(\$2,539,695)
Pension expense/expenditures	\$413,146

A. State Sponsored Pension Plans

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

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

Department of Retirement Systems
Communications Unit
P.O. Box 48380

Olympia, WA 98540-8380

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

Public Employees' Retirement System (PERS)

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

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

Contributions

The **PERS Plan 1** member contribution rate is established by State statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2018 were as follows:

PERS Plan 1			
Actual	Contribution	Employer	Employee
Rates			
January – August 2018			
PERS Plan 1		7.49%	6.00%
PERS Plan 1 UAAL		5.03%	
Administrative Fee		0.18%	
Total		12.70%	6.00%
September – December 2018			
PERS Plan 1		7.52%	6.00%
PERS Plan 1 UAAL		5.13%	
Administrative Fee		0.18%	
Total		12.83%	6.00%

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

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

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

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

Contributions

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 2018 were as follows:

PERS Plan 2/3			
Actual	Contribution	Employer 2/3	Employee 2
Rates			
January – August 2018			
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%
September – December 2018		
PERS Plan 2/3	7.52%	7.41%
PERS Plan 1 UAAL	5.13%	
Administrative Fee	0.18%	
Employee PERS Plan 3		Varies
Total	12.83%	7.41%

The City's actual PERS plan contributions were \$735,652 to PERS Plan 1 and \$1,064,874 to PERS Plan 2/3 for the year ended December 31, 2018.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2018 with a valuation date of June 30, 2017. 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 *2017 Economic Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2017 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2018. Plan liabilities were rolled forward from June 30, 2017, to June 30, 2018, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- **Inflation:** 2.75% total economic inflation; 3.50% salary inflation
- **Salary increases:** In addition to the base 3.50% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- **Investment rate of return:** 7.4%

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.

- Lowered the assumed general salary growth from 3.75% to 3.50% for all systems.
- Lowered assumed inflation from 3.00% to 2.75% for all systems.

Discount Rate

The discount rate used to measure the total pension liability for all DRS plans was 7.4 percent.

To determine that rate, an asset sufficiency test included an assumed 7.5 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 7.4 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue being made at contractually required rates (including PERS 2/3 employers, whose rates include a component for the PERS 1 plan liabilities). Based on these assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.4 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 7.4 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, 2018, 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	7%	4.90%
Real Estate	18%	5.80%
Global Equity	32%	6.30%
Private Equity	23%	9.30%
TOTAL	100%	

Sensitivity of the Net Pension Liability/(Asset)

The table below presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.4 percent, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.4 percent) or 1-percentage point higher (8.4 percent) than the current rate.

	1% Decrease (6.4%)	Current Discount Rate (7.4%)	1% Increase (8.4%)
PERS 1	\$5,420,606	\$4,410,807	\$3,536,117
PERS 2/3	9,541,938	2,086,115	(4,026,828)
TOTAL	\$14,962,544	\$6,496,922	(\$490,711)

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, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2018, the City reported a total pension liability of \$6,496,922 for its proportionate share of the net pension liabilities as follows:

	Liability
PERS 1	\$4,410,807
PERS 2/3	2,086,115
TOTAL	\$6,496,922

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

	Proportionate Share 6/30/17	Proportionate Share 6/30/18	Change in Proportionate Share
PERS 1	0.101204%	0.098763%	(0.002441%)
PERS 2/3	0.125482%	0.122180%	(0.003302%)
TOTAL	0.226686%	0.220943%	(0.005743%)

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.

The collective net pension liability (asset) was measured as of June 30, 2018, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2017, with update procedures used to roll forward the total pension liability to the measurement date.

Pension Expense

For the year ended December 31, 2018, the City recognized pension expense as follows:

	Pension Expense
PERS 1	\$284,712

PERS 2/3	128,434
TOTAL	\$413,146

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following:

PERS1	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		(\$175,283)
Changes of assumptions		
Changes in proportion and differences between contributions and proportionate share of contributions		
Contributions subsequent to the measurement date	\$377,082	
TOTAL	\$377,082	(\$175,283)

PERS2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$255,703	(\$365,240)
Net difference between projected and actual investment earnings on pension plan investments		(1,280,137)
Changes of assumptions	24,404	(593,691)
Changes in proportion and differences between contributions and proportionate share of contributions	450,355	(125,344)
Contributions subsequent to the measurement date	546,013	
TOTAL	\$1,276,475	(\$2,364,412)

Deferred outflows of resources related to pensions resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2019. 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:	PERS1
2019	\$7,669
2020	(38,318)
2021	(114,981)
2022	(29,653)
2023	
Thereafter	(\$175,283)

Year ended December 31:	PERS2/3
2019	(\$113,657)
2020	(366,185)
2021	(721,621)
2022	(228,218)
2023	(45,457)
Thereafter	(158,813)
TOTAL	(\$1,633,950)

Note 7 – LOCAL GOVERNMENT PENSION TRUST FUND PLANS

The City established a Money Purchase Retirement Plan and Trust under Internal Revenue Code Section 401(a) effective April 1996. This is a defined contribution plan, which was established in lieu of participation by the City in the Social Security system. Plan assets are held with TIAA-CREF, the current plan provider.

Under this plan, employees contribute 6.2%. The City also contributes 6.2% into the employee account. Participation in this plan is mandatory. Employee and employer contributions are vested immediately. The City contributed \$897,967 for the current year, the amount recognized as a pension expense for the period.

Each employee may direct his/her investment among various investment options. Upon separation of service prior to retirement, all employee contributions may be withdrawn without regard to age.

The City also established a Money Purchase Retirement Plan and Trust in 1997 with the ICMA Retirement Corporation, as an alternative to the Washington State Public Employees Retirement System Plan II. The only employee eligible to participate in this plan is a former City Manager.

As of December 31, 2018, the assets in the TIAA-CREF Money Purchase Plans were valued at \$25,089,904.

Note 8 – DEFERRED COMPENSATION PLANS

The City offers its employees a deferred compensation plans created in accordance with Internal Revenue Code Section 457. The plans, available to all benefitted employees, permit them to defer a portion of their salary until future years. The following two plans are offered to City employees: (1) Teachers Insurance and Annuity Association – College Retirement Equities Fund (TIAA-CREF) and (2) The Department of Retirement System's Deferred Compensation Plan (DCP). Each plan has been established pursuant to GASB Statement 32, "Accounting and Financial Reporting for Internal Revenue Code, Section 457 Deferred Compensation Plans."

The City's practical involvement in administering the plans described above is essentially limited to remitting the amounts collected from employees to the plan administrators. It is the opinion of the City's legal counsel that the City's general creditors have no claim to the assets of the aforementioned Trusts. In this case the use of a fiduciary fund to account for the assets of the deferred compensation plan would not be appropriate, because the government is not properly considered to be holding the assets.

As of December 31, 2018, the total value of the TIAA-CREF plan totaled \$15,308,366. At the time these statements were prepared, asset valuations of the DCP plan were not available from the plan administrator.

Note 9 – CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS

A. SIGNIFICANT CONSTRUCTION COMMITMENTS:

None

B. OTHER SIGNIFICANT COMMITMENTS:

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

Project	Spent to Date	Remaining Commitment
145th & I-5 Interchange	\$ 497,426	\$ 779,317
145th St Corridor Improvements	531,827	1,161,812
25 th Ave NE Flood Reduction Improvements	464,125	797,751
Real Estate Acquisition and Relocation	\$ 105,250	\$ 1,003,750

Note 10 – LEASES

During 2018, the City leased parking space from Walgreen's for City vehicles for a total cost of \$7,392. This operating lease allows the City or the lessor to cancel the lease. The City also entered into a five-year lease with the Washington State Department of Social and Health Services to use approximately 2 acres of vacant land at the southeast section of the Fircrest Campus as an off-leash dog area and associated parking. The annual cost of this lease is \$2,400.

During 2018, the City continued to lease property to the one remaining tenant of the Highland Park Center originally purchased for the completed City Hall expansion. The tenant has a month-to-month lease with a monthly rent of \$5,054.

During 2018, the City leased parking space to the United States Postal Service (USPS), at the North Maintenance Facility site at a monthly rate of \$2,400. The USPS has an option to renew the lease.

Note 11 - LONG-TERM DEBT

A. Long-Term Debt

In 2018, the City implemented GASBS No. 86, Certain Debt Extinguishment Issues and GASBS No. 88, Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements, which expanded the City's debt disclosures.

The City issues general obligation and revenue bonds to finance the acquisition or construction of land, buildings, improvements, and infrastructure; and the purchase of equipment. Bonded indebtedness has also been entered into, in prior years, to advance refund general government activities and is being repaid from the applicable resources. The revenue bonds are being repaid by proprietary fund revenues.

General obligation bonds currently outstanding are as follows:

Purpose	Maturity Range	Interest Rate	Original Amount	Outstanding 12/31/2018
Limited Tax General Obligation Bonds, 2009 Series B (Taxable Build America Bonds-Direct Pay)- City Hall	2019 - 2039	4.69% - 6.40%	\$ 18,340,000	\$ 17,785,000
Total			\$ 18,340,000	\$ 17,785,000

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

Year Ending December 31, 2018	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2019	\$ 570,000	\$ 1,103,917		
2020	590,000	1,051,155		
2021	610,000	1,051,155		
2022	630,000	990,435		
2023	650,000	990,435		
2024 - 2028	3,645,000	4,613,613		
2029 - 2033	4,435,000	3,524,153		
2034 - 2038	5,430,000	2,098,038		
2039 - 2043	1,225,000	361,920		
Total	\$ 17,785,000	\$ 15,784,818	\$ -	\$ -

General obligation bond direct placements currently outstanding are as follows:

Purpose	Maturity Range	Interest Rate	Original Amount	Outstanding 12/31/2018
Limited Tax General Obligation Bonds, 2013 - Maintenance Facility	2014 - 2033	3.75%	\$ 3,565,000	\$ 2,925,000
Unlimited Tax General Obligation Bonds, 2016 Refunding- Parks and Open Space	2016 - 2021	1.02% - 1.72%	7,595,000	4,385,000
Total			\$ 11,160,000	\$ 7,310,000

The annual debt service requirements to maturity for general obligation bond direct placements are as follows:

Year Ending December 31, 2018	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2019	\$ 1,775,000	\$ 176,787		
2020	1,802,000	148,899		
2021	1,273,000	117,394		
2022	165,000	223,330		
2023	170,000	86,063		
2024 - 2028	965,000	328,500		
2029 - 2033	1,160,000	133,688		
Total	\$ 7,310,000	\$ 1,214,659	\$ -	\$ -

In December of 2018, the City issued a direct placement revenue bond for \$4,700,000, with terms allowing for draw down of funds over a two-year period. The City drew down \$500,000 of this amount prior to year-end leaving available \$4,200,000 for future drawdowns. The terms of the agreement stipulate a minimum amount of \$100,000 per draw down.

Direct placement revenue bonds currently outstanding are as follows:

Purpose	Maturity Range	Interest Rate	Original Amount	Outstanding 12/31/2018
Surface Water Utility Revenue Bonds, 2016 - Various Surface Water Utility Projects	2016 - 2031	2.23%	\$ 2,000,000	\$ 1,770,087
Surface Water Utility Revenue Bonds, 2018 - Various Surface Water Utility Projects (\$4.7M Bond with draw provisions)	2018 - 2033	3.35%	500,000	500,000
Total			\$ 2,500,000	\$ 2,270,087

The annual debt service requirements to maturity for direct placement revenue bonds are as follows:

Year Ending December 31, 2018	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2019			\$ 489,833	\$ 52,251
2020			250,576	38,983
2021			124,240	34,112
2022			127,010	31,341
2023			129,842	28,509
2024 - 2028			693,958	97,799
2029 - 2033			454,628	20,425
Total	\$ -	\$ -	\$ 2,270,087	\$ 303,421

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

Public Works Trust Fund Loans currently outstanding are as follows:

Issue Name	Amount Borrowed	Annual Installments	Final Maturity	Effective Rate	Outstanding 12/31/18
State of WA Public Works Trust Fund Loans:					
Third Avenue Drainage Improvements	\$ 1,959,500	\$ 114,213	2021	0.50%	\$ 342,640
Ronald Bog Sub Basin Improvements	3,852,725	212,262	2021	0.50%	636,784
Total	\$ 5,812,225	\$ 326,475			\$ 979,424

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

Year Ending December 31, 2018	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2019			\$ 326,475	\$ 4,897
2020			326,475	3,265
2021			326,474	1,632
Total	\$ -	\$ -	\$ 979,424	\$ 9,794

In proprietary funds, any unamortized debt issue costs for insurance are recorded as an asset and bonds are displayed net of premium or discount; annual interest expense is decreased by the amortization of debt premiums and increased by the amortization of debt issuance costs and discounts. As of December 31, 2018, the proprietary funds had no unamortized debt issue costs, premiums or discounts.

At December 31, 2018, the City has \$2,487 available in debt service funds to service the general bonded debt; no reserve requirements are stipulated by these bonds. Restricted assets in the proprietary fund contain \$0 in sinking funds and reserves, as no sinking funds or reserves are required by bond indentures.

The City has pledged future surface water revenues and ULID assessments, net of expenses, to pay \$1,770,087 and \$500,000 in revenue bonds issued in 2016 and 2018, respectively. Proceeds from the bonds provided financing for various storm water projects. The bonds are payable solely from net revenues of the utility. The 2016 Revenue Bonds are payable through 2031. Once fully drawn down, the 2018 Revenue Bonds will be payable through 2033; currently they are only payable through 2020. Annual principal and interest payments on the bonds are expected to require less than 29% percent of net revenues. The total principal and interest remaining to be paid on the two bonds is \$2,573,508. Principal and interest paid for revenue bonds the current year and total revenues were \$158,351 and \$5,907,520, respectively.

B. Refunded Debt:

In prior years, the city defeased certain general obligation bonds by placing the proceeds of the new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for defeased bonds are not included in the City's financial statements. At December 31, 2018, \$4,695,000 of bonds outstanding are considered defeased.

C. Authorized Debt Issuances not Issued:

In 2018, with Ordinance No. 829, the City Council Authorized the issuance of \$25,000,000 in Limited Tax General Obligation Bond Anticipation Notes (BANs), for the purpose of providing interim financing for a portion of the City's Parks, Recreation, and Open Space Plan and costs related to issuance. This authorization expires one year following the effective date of the ordinance: August 14, 2018, unless extended.

Following year-end, the City Council authorized the issuance of one or more series of limited tax general obligation bonds in the aggregate principal amount of \$42,000,000 related to transportation improvement projects. See the subsequent events footnote, for more information.

D. Arbitrage:

The City's bonds are subject to federal arbitrage rules which the City is committed to meeting.

E. Terms Specified in Debt Agreements Related to Significant Finance-Related Events:

The terms of the Limited 2013 G.O. Bond stipulates that, in the event of the City's failure to pay bond principal in a timely manner, "...the City shall be obligated to pay interest on the Bond at the same rate provided in the Bond from and after its maturity of date fixed for prepayment until the bond, both principal and interest, is paid in full or until sufficient money for its payment in full is on deposit in the Bond Fund, and the Bond has been called for payment by giving notice of that call to the Registered Owner."

Both the 2016 and 2018 Revenue Bonds stipulate that, in the event the bonds are determined to be taxable, the interest rates will immediately be adjusted upwards. In such an eventuality, the 2016 Revenue Bonds' interest rate would be increased from 2.23% to 3.43%; and the 2018 Revenue Bonds' interest rate would be increased from 3.35% to 4.19%.

Note 12 – CHANGES IN LONG-TERM LIABILITIES

Compensated absences and net pension liabilities are also considered long-term liability and represent unpaid vacation, compensated time, eligible sick leave liability and the pension liability of the City. For the governmental activities, compensated absences and net pension liabilities are generally liquidated in the General Fund, Street Fund, General Capital Fund and Roads Capital Fund.

Other Long Term Liabilities	Beginning Balance 01/01/18	Additions	Reductions	Ending Balance 12/31/18
Compensated Absences				
Governmental Activity	\$ 1,041,124	\$ 1,073,371	\$ 1,029,544	\$ 1,084,951
Business-Type Activity	157,520	142,802	144,659	155,663
	1,198,645	1,216,173	1,174,203	1,240,615
Net Pension Liability				
Governmental Activity	8,340,353		2,802,377	5,537,976
Business-Type Activity	821,755	137,191		958,946
	9,162,108	137,191	2,802,377	6,496,922
Total	\$ 10,360,753	\$ 1,353,364	\$ 3,976,580	\$ 7,737,537

With the City's implementation of GASBS No. 88, Certain Disclosures Related to Debt, Including Borrowings and Direct Placements, a distinction has been made between public offerings and direct placement debt.

During the year ended December 31, 2018, the following changes occurred in the long-term liabilities.

	Beginning Balance 01/01/18	Additions	Reductions	Ending Balance 12/31/18	Due Within One Year
Governmental Activities:					
General Obligation Bonds	\$ 18,340,000		\$ 555,000	\$ 17,785,000	\$ 570,000
General Obligation Bonds - Direct Placement	9,064,000		1,754,000	7,310,000	1,775,000
Compensated Absences	1,041,124	1,073,371	1,029,544	1,084,951	
Net Pension Liability	8,340,353		2,802,377	5,537,976	
Governmental Activity long-term liabilities	36,785,477	1,073,371	6,140,921	31,717,927	2,345,000
Business-Type Activities:					
Surface Water Utility Bonds - Direct Placement	1,886,372	\$ 500,000	116,285	2,270,087	489,833
Public Works Trust Fund Loans	1,305,898		326,474	979,424	326,475
Compensated Absences	157,520	142,802	144,659	155,663	
Net Pension Liability	821,755	137,191		958,946	
Business-Type Activity long-term liabilities	\$ 4,171,545	\$ 779,993	\$ 587,418	\$ 4,364,120	\$ 816,308

Note 13- INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

A. Interfund Receivable/Payable

In 2018, the City Council approved an interfund loan from the General Fund to the General Capital Fund in an amount not to exceed \$2,100,000. The purpose of the loan was to provide partial interim financing of the Shoreline Police at City Hall Project until the former Police Station could be sold. Originally, the loan was scheduled to be paid no later than April 30, 2019. In light of the delay in selling the former Police Station, the City Council granted an extension on the loan until July 31, 2020. See Subsequent Event footnote for additional information.

Due To	Due From		
	General Capital Fund		Total
	General Fund		
	Total		
	\$ 2,100,000	\$ 2,100,000	\$ 2,100,000
	\$ 2,100,000	\$ 2,100,000	\$ 2,100,000

B. Interfund Transfers

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

Interfund transfers at December 31, 2018 were as follows:

Transfer To	Transfer From						
	General Fund	General Capital	Roads Capital	Surface Water Utility	Other Governmental	Internal Service	Total
General Fund		\$ 23,501	\$ 57,194	\$ 710,310	\$ 917,631	\$ 124,759	\$ 1,833,395
General Capital	\$ 923,505				399,897		1,323,402
Roads Capital	729,750				9,426	441	739,617
Surface Water Utility						68,489	68,489
Other Governmental	1,118,898	662,546	2,283			54,827	1,838,554
Internal Service	42,655						42,655
Total	\$ 2,814,808	\$ 686,047	\$ 59,477	\$ 710,310	\$ 1,326,954	\$ 248,516	\$ 5,846,112

Note 14 - RISK MANAGEMENT

A. Property and Liability

The City of Shoreline is a member of the Washington Cities Insurance Authority (WCIA). Utilizing Chapter 48.62 RCW (self-insurance regulation) and Chapter 39.34 RCW (Interlocal Cooperation Act), nine cities originally formed WCIA on January 1, 1981. WCIA was created for the purpose of providing a pooling mechanism for jointly purchasing insurance, jointly self-insuring, and / or jointly contracting for risk management services. WCIA has a total of 160 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, with deductibles of \$25,000 and \$1,000 for property and auto coverage, respectively. Coverage includes general, automobile, police, errors or omissions, stop gap, employment practices and employee benefits liability. Limits are \$4 million per occurrence in the self-insured layer, and \$21 million in limits above the self-insured layer is provided by reinsurance. Total limits are \$25 million per occurrence subject to aggregates and sublimits. The Board of Directors determines the limits and terms of coverage annually.

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

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

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

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

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

For each of the past three fiscal years, the City did not have any settlements which exceeded its insurance coverage.

B. Health and Welfare

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

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

As of December 31, 2018, 257 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 2018, 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"). In 2018, the retiree medical plan subsidy was eliminated, and is noted as such in this report. Year-end financial reporting is done on an accrual basis and submitted to the Office of the State Auditor as required by Chapter 200-110 WAC. The audit report for the AWC Trust HCP is available from the Washington State Auditor's office.

C. Industrial Insurance

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

D. Unemployment

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

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

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

Year	Beginning Claim Liability	Additions	Reductions	Ending Claim Liability
2017	\$173	\$3,896	\$4,021	\$48
2018	\$48	\$15,508	\$5,415	\$10,141

NOTE 15 – TAX ABATEMENT

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

Tax Abatement Programs For the Year Ended December 31, 2018		
	Primary Government City of Shoreline	Other Government State of Washington
	Multi-Unit Urban Housing Exemption	Nonprofit
1) Purpose of program	a) Encourage increased multifamily affordable and market-rate residential opportunities within targeted areas.	Encourage increased multifamily affordable housing for very low income families.
	b) Stimulate new construction or rehabilitation of existing vacant and underutilized buildings for revitalization of designated areas.	
	c) Assist in directing future population growth to targeted areas, thereby reducing development pressure on single-family residential neighborhoods.	
	d) Achieve developmental densities that stimulate a healthy economic base and are more conducive to transit use in the designated targeted area.	
2) Tax being abated	Property Tax	Property Tax
3) Authority under which abatement agreements are entered into	SMC 3.27 and RCW chapter 84.14: in addition each owner of a property must enter a legally binding agreement with the City of Shoreline, which is then recorded with King County. The agreement details the affordability requirements and other stipulations for compliance with the program.	RCW chapter 84.36.560: each owner must submit an application to the Washington State Department of Revenue (DOR). If approved, the DOR issues a Property Tax Exemption Determination letter.
4) Criteria to be eligible to receive abatement	The program is meant to incentivize the creation of multi-family housing by providing a property tax exemption on new or rehabilitated multi-family buildings in exchange for setting aside a minimum of 20% of the homes as income- and rent-restricted. The program is only available to developers who build or rehabilitate four or more units. Additional requirements apply to rehabilitated properties which are already occupied.	Nonprofit entities which provide low income housing qualify if: a) The nonprofit entity benefits from the exemption; b) At least 75% of the occupied dwelling units in the rental housing or lots in a mobile park are occupied by a very low-income household. c) The rental housing or lots in a mobile home park were insured, financed, or assisted in whole or in part through one or more of the following sources: (i) A federal or state housing program administered by the department of community, trade, and economic development; (ii) A federal housing program administered by a city or county government;

		(iii) An affordable housing levy authorized under RCW 84.52.105; or (iv) The surcharges authorized by RCW 36.22.178 and 36.22.179 and any of the surcharges authorized in chapter 43.185C RCW.
5) How recipient's taxes are reduced	Only the ad valorem value of housing-related improvements qualifying under the terms of Chapter 3.27, are exempt. Land value continues to be taxed.	The ad valorem value of land, residential improvements and personal property exclusively used to provide rental housing are exempt.
6) How amount of abatement is determined	The entire appraised value of the participating property's residential improvements is exempt.	The entire appraised value of the participating property's land, residential improvements and personal are exempt.
7) Provisions for recapturing abated taxes	If a property fails to comply with the affordability restriction, the City Manager has the authority to cancel a tax exemption, and the Assessor has the authority to impose fines, collect back taxes, and charge interest on back taxes.	Upon cessation of a use under which an exemption has been granted pursuant to RCW 84.36.560, with certain exceptions, the county treasurer shall collect all taxes which would have been paid had the property not been exempt during the three years preceding, or the life of such exemption, if such be less, together with the interest at the same rate and computed in the same way as that upon delinquent property taxes.
8) Types of commitments made by the City other than to reduce taxes	N/A	N/A
9) Gross amount of City's revenues being reduced	\$63,238	\$8,141

NOTE 16 – RELATED PARTY TRANSACTIONS

On October 22, 2002, the Ronald Wastewater District (District) and the City entered into an agreement in which the City would assume control of the District on October 23, 2017. In consideration of the Interlocal Operating Agreement Fee, the City consented to not exercise its statutory authority granted under RCW 35.13A which would have allowed the City to assume jurisdiction over “the District or any District responsibilities, property, facilities or equipment within the city’s corporate limits, including future annexed areas.” Due to litigation issues, this government combination has been deferred.

Instead, effective October 23, 2017, the District contracted with the City to take over the day-to-day operations of the District; the District’s regular employees became City employees; and the District transferred all of its personal assets to the City. The Wastewater Enterprise Fund was established to record and report the activity of the District’s operations.

It is anticipated that the City will invoice the District each quarter for budgeted operating costs. The funds collected by the City on behalf of the District through walk in wastewater customers who pay their wastewater invoices to the City are taken into account. A reconciliation of actual costs to advanced funds will take place at least annually. A reconciliation was performed as of December 31st, and it was determined that the District is owed \$206,511 by the City.

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

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

In 2018, the anticipated true up of pension costs resulting from the utility's transfer of its employees to the City's employ was recognized. The year-end GASBS 68 adjustments increased pension expense for the year by \$414,906.

In 2018, the City reported \$1,917,250 in operating revenues from the District, in the Wastewater Utility Fund. The operating fee represents a full year of revenue. Reported expenses totaled \$2,422,413. The \$505,163 in expenses in excess of revenues is attributable to the GASBS 68 pension adjustments and the fourth quarter 2017 revenue reduction booked in 2018. In consequence, the Wastewater Utility Fund ended the year with a negative fund balance of \$463,846, although the fund has adequate cash and investments sufficient to continue operations.

Note 17 – CONTINGENCIES AND LITIGATION

Contingent Liabilities

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

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

The City is contingently liable for the repayment of refunded debt. See Note 11: Long-Term Debt.

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

Litigation

The City had several lawsuits pending at the end of 2018. In the opinion of management, it is highly improbable that any of the cases would result in material liabilities to the City.

NOTE 18 – SUBSEQUENT EVENTS

A. Authorization of Bonds

On March 18, 2019 the City Council passed Ordinance No. 853, authorizing the issuance of one or more series of limited tax general obligation bonds in the aggregate principal amount not to exceed \$42,000,000 for the purpose of financing costs related to transportation improvement projects. This was supported by a two-tenths of one percent (0.2%) sales and use tax increase which had been approved by the voters during 2018, for the purpose of funding sidewalk and pedestrian improvements. Additionally, the Transportation Benefit District's sales tax revenues are restricted to servicing transportation-related debt.

B. Authorization of Interfund Loan Extension

On March 25, 2019, the City Council adopted Resolution No. 435, which extended the \$2,100,000 interfund loan from the General Fund to the General Capital Fund from its original April 30, 2019 due date to July 31, 2020. This was done due to mitigate for the delays associated with the sale of the City's former Police Station.

City of Shoreline
Schedule of Proportionate Share of the Net Pension Liability
PERS1
As of June 30
Last 10 Fiscal Years¹

	2018	2017	2016	2015
Employer's proportion of the net pension liability (asset)	0.098763%	0.101204%	0.091285%	0.092547%
Employer's proportionate share of the net pension liability	\$ 4,410,807	\$ 4,802,209	\$ 4,902,434	\$ 4,841,069
Covered payroll ^{2, 4}	\$ 12,920,189	\$ 12,483,917	\$ 10,862,070	\$ 10,277,408
Employer's proportionate share of the net pension liability as a percentage of covered payroll	34.14%	38.47%	45.13%	47.10%
Plan fiduciary net position as a percentage of the total pension liability	63.22%	61.24%	57.03%	59.10%

City of Shoreline
Schedule of Employer Contributions
PERS1
As of December 31
Last 10 Fiscal Years¹

	2018	2017	2016	2015
Statutorily or contractually required contributions	\$ 735,652	\$ 615,665	\$ 558,303	\$ 490,337
Contributions in relation to the statutorily or contractually required contributions ³	735,652	615,665	558,303	490,337
Contribution deficiency (excess)	0	0	0	0
Covered payroll ²	\$ 14,348,776	\$ 12,500,392	\$ 11,469,839	\$ 10,894,759
Contributions as a percentage of covered payroll	5.13%	4.93%	4.87%	4.50%

Notes to Schedule:

¹These schedules will be built prospectively until they contain 10 years of data.

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

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

⁴Covered payroll was restated for 2015 and 2016. In error, the covered payroll data had been provided for calendar years rather than fiscal years ending June 30th.

REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Plans
MCAG No. 1015

City of Shoreline
Schedule of Proportionate Share of the Net Pension Liability
PERS2/3
As of June 30
Last 10 Fiscal Years¹

	2018	2017	2016	2015
<u>Employer's proportion of the net pension liability (asset)</u>	0.122180%	0.125482%	0.112199%	0.112877%
<u>Employer's proportionate share of the net pension liability</u>	\$ 2,086,115	\$ 4,359,900	\$ 5,649,131	\$ 4,033,160
<u>Covered payroll^{2, 4}</u>	\$ 12,747,030	\$ 12,284,105	\$ 10,675,686	\$ 10,020,552
<u>Employer's proportionate share of the net pension liability as a percentage of covered payroll</u>	16.37%	35.49%	52.92%	40.25%
<u>Plan fiduciary net position as a percentage of the total pension liability</u>	95.77%	90.97%	85.82%	89.20%

City of Shoreline
Schedule of Employer Contributions
PERS2/3
As of December 31
Last 10 Fiscal Years¹

	2018	2017	2016	2015
<u>Statutorily or contractually required contributions</u>	1,064,874	826,247	701,870	600,989
<u>Contributions in relation to the statutorily or contractually required contributions³</u>	1,064,874	826,247	701,870	600,989
<u>Contribution deficiency (excess)</u>	0	0	0	0
<u>Covered payroll²</u>	13,854,808	12,302,561	11,280,722	10,668,684
<u>Contributions as a percentage of covered payroll</u>	7.69%	6.72%	6.22%	5.63%

Notes to the Schedules:

¹"Covered-employee payroll" includes employee compensation, as defined by statute, that the City reported to the Washington Department of Retirement Services (DRS). Employer-reported employee compensation is used to calculate retirement contributions due the retirement system. The total salary of wages paid to employees eligible for retirement-system coverage may not be reportable to the DRS.

²The annual required contribution changes each year with the experience of the plans. Factors influencing the experience include changes in funding methods, assumptions, plan provisions, and economic and demographic changes and losses.

³These schedules will be built prospectively until they contain 10 years of data.

⁴Covered payroll was restated for 2015 and 2016. In error, the covered payroll data had been provided for calendar years rather than fiscal years ending June 30th.

City of Shoreline
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2018

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Note
				From Pass- Through Awards	From Direct Awards	Total	
CDBG - Entitlement Grants Cluster							
ASSISTANT SECRETARY FOR COMMUNITY PLANNING AND DEVELOPMENT, HOUSING AND URBAN DEVELOPMENT, DEPARTMENT OF (via KING COUNTY HOUSING AND DEVELOPMENT)	Community Development Block Grants/Entitlement Grants	14.218	B-17-UC- 530001, 5EG98	68,212	-	68,212	2
ASSISTANT SECRETARY FOR COMMUNITY PLANNING AND DEVELOPMENT, HOUSING AND URBAN DEVELOPMENT, DEPARTMENT OF (via KING COUNTY HOUSING AND DEVELOPMENT)	Community Development Block Grants/Entitlement Grants	14.218	B-18-UC- 530001, 5EG98	80,269	-	80,269	2
Total CDBG - Entitlement Grants Cluster:				148,481	-	148,481	
OFFICE OF JUSTICE PROGRAMS, JUSTICE, DEPARTMENT OF	Edward Byrne Memorial Competitive Grant Program	16.751	2015-WY-BX- 0005	-	57,427	57,427	2
Highway Planning and Construction Cluster							
FEDERAL HIGHWAY ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF (via WASHINGTON STATE DEPARTMENT OF TRANSPORTATION)	Highway Planning and Construction	20.205	LA 8856/SRTS- 1169(020)	34,282	-	34,282	2
FEDERAL HIGHWAY ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF (via WASHINGTON STATE DEPARTMENT OF TRANSPORTATION)	Highway Planning and Construction	20.205	LA 8901/STPUL -0523(010)	392,882	-	392,882	2

The accompanying notes are an integral part of this schedule.

City of Shoreline
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2018

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Passed through to Subrecipients	Note
				From Pass- Through Awards	From Direct Awards	Total		
FEDERAL HIGHWAY ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF (via WASHINGTON STATE DEPARTMENT OF TRANSPORTATION)	Highway Planning and Construction	20.205	LA 8990/HSIP- 000S(450)	110,085	-	110,085	-	2
FEDERAL HIGHWAY ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF (via WASHINGTON STATE DEPARTMENT OF TRANSPORTATION)	Highway Planning and Construction	20.205	LA 8981/HSIP- 2141(002)	945	-	945	-	2
FEDERAL HIGHWAY ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF (via WASHINGTON STATE DEPARTMENT OF TRANSPORTATION)	Highway Planning and Construction	20.205	LA 9075/STPUL -0523(011)	375,522	-	375,522	-	2
FEDERAL HIGHWAY ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF (via WASHINGTON STATE DEPARTMENT OF TRANSPORTATION)	Highway Planning and Construction	20.205	LA 9398/STPUL -1611(004)	2,786	-	2,786	-	2
Total Highway Planning and Construction Cluster:				916,502	-	916,502	-	

Highway Safety Cluster

The accompanying notes are an integral part of this schedule.

City of Shoreline
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2018

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Note
				From Pass- Through Awards	From Direct Awards	Total	
NATIONAL HIGHWAY TRAFFIC SAFETY ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF (via WASHINGTON TRAFFIC SAFETY COMMISSION)	State and Community Highway Safety	20.600	2019-HVE-3354 -Shoreline Emphasis Patrols	4,198	-	4,198	2
NATIONAL HIGHWAY TRAFFIC SAFETY ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF (via WASHINGTON TRAFFIC SAFETY COMMISSION)	State and Community Highway Safety	20.600	2018-HVE-2353 -Shoreline PD Emphasis Patrols	6,869	-	6,869	2
Total Highway Safety Cluster:				11,067	-	11,067	
FEDERAL EMERGENCY MANAGEMENT AGENCY, HOMELAND SECURITY, DEPARTMENT OF (via WASHINGTON STATE MILITARY DEPARTMENT)	Emergency Management Performance Grants	97.042	EMS-2018-EP- 00004-S01/ E19 -146	12,413	-	12,413	2
FEDERAL EMERGENCY MANAGEMENT AGENCY, HOMELAND SECURITY, DEPARTMENT OF (via WASHINGTON STATE MILITARY DEPARTMENT)	Emergency Management Performance Grants	97.042	EMS-2017-EP- 00004-S01/ E18 -107	17,317	-	17,317	2
Total CFDA 97.042:				29,730	-	29,730	
Total Federal Awards Expended:				1,105,780	57,427	1,163,207	

The accompanying notes are an integral part of this schedule.

CITY OF SHORELINE, WASHINGTON

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS For the Year Ended December 31, 2018

NOTE 1 - BASIS OF ACCOUNTING

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

NOTE 2 - PROGRAM COSTS

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

NOTE 3 – INDIRECT COST RATE

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



CORRECTIVE ACTION PLAN FOR FINDINGS REPORTED UNDER UNIFORM GUIDANCE

City of Shoreline
January 1, 2018 through December 31, 2018

This schedule presents the corrective action planned by the City for findings reported in this report in accordance with Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

Finding ref number: 2018-001	Finding caption: The City's internal controls over accounting and financial reporting were inadequate to ensure financial statements were accurate and complete.
Name, address, and telephone of City contact person: Sara Lane City of Shoreline 17500 Midvale Avenue N. Shoreline, WA 98133	
Corrective action the auditee plans to take in response to the finding: <i>1) Net Investment in Capital Assets - Internal Service Fund</i> <i>The City is committed to process improvement, and one that we implemented for the 2018 financial report is automating the statements, using a program that pulls account balances directly from the financial system into Excel templates. There is a substantial amount of set up work, but once completed, the process greatly reduces the risk of errors in translating g/l balances into the YE financial report. There was considerable testing and review that went into this transition with the recreation of 2017 financial statements and reconciliation of the statements produced from with new tool to the manually prepared statements from 2017. Despite our review efforts the internal service fund net position, while correct in total, was not accurately split between Net Investment in Capital Assets and Unrestricted. The 2018 statements were reviewed by 3 different individuals, but the error, in the lower right corner of the statement, was not identified.</i> <i>With the new reporting tool in-place, staff anticipate being able to produce financial statements faster. This will afford additional time for review including comparison with prior years'</i>	

statements at a more detailed line item level to identify issues such as this one, and the use of a 3-year trend analysis like that used by the Auditors to help identify other potential areas of concern. Additionally, now that the City is aware that changes can be made to the financial statements after the May 30th deadline, but prior to the beginning of the audit, review can continue if necessary, to resolve any concerns identified during the review.

2) Due to and Due from Other Governments – Wastewater Enterprise Fund

Under the terms of the operating services agreement between Ronald Wastewater District and the City of Shoreline, the city performs the day-to-day operations of the district and pays most of the expenses generated by the operations. Originally, the City and the district anticipated that the district would provide funding on a quarterly basis, in advance, to fund the operations. However, after transition to the new operating structure, the city found that the amount of funds it was collecting on behalf of the district, accounted for as being due to RWD, offset a large portion of the operating expense. For this reason, it was not necessary to invoice the district quarterly for advance funds based on budgeted expenses, as the combination of the two would mean the city would have surplus funds. The city accounted for the amount due from the district for the operation of the wastewater utility under the terms of the operating agreement as revenue and due from the district (Due From). The funds being collected by the City on the district's behalf were accounted for separately as a liability/due to the district to ensure transparency, particularly should the district's Board of Commissioners question whether the district was receiving the full benefit of funds collected on its behalf (Due to). There is no dispute that the net amount is accurate, but the city believed reporting it as gross due to and due from provided this additional transparency, even though it was unusual in nature. The SAO determined that this was not acceptable, and the city has now netted the number to the actual amount due to the district as of year-end. This change made no impact to the Fund or City's net position.

For 2019's annual report, the City will report this activity as a net amount on the yearend report. However, the city will continue to track the amounts separately internally to ensure appropriate transparency and accountability. This will not be an issue for Financial Statements after 2020, as the City will absorb the wastewater district completely in 2020.

Anticipated date to complete the corrective action: 6/30/2020

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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