



Office of the Washington State Auditor

Pat McCarthy

Financial Statements and Federal Single Audit Report

City of Federal Way

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

Published September 28, 2018

Report No. 1022330





Office of the Washington State Auditor Pat McCarthy

September 28, 2018

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

Report on Financial Statements and Federal Single Audit

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

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

Sincerely,

A handwritten signature in black ink that reads "Pat McCarthy".

Pat McCarthy
State Auditor
Olympia, WA

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

City of Federal Way January 1, 2017 through December 31, 2017

SECTION I – SUMMARY OF AUDITOR’S RESULTS

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

Financial Statements

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

Internal Control over Financial Reporting:

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

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

Federal Awards

Internal Control over Major Programs:

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

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

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 programs were selected as major programs in our audit of compliance in accordance with the Uniform Guidance.

<u>CFDA No.</u>	<u>Program or Cluster Title</u>
14.218	CDBG – Entitlement Grants Cluster - Community Development Block Grants/Entitlement Grants
14.248	Community Development Block Grants Section 108 Loan Guarantees
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 did not qualify as a low-risk auditee under the Uniform Guidance.

SECTION II – FINANCIAL STATEMENT FINDINGS

None reported.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.



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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

City of Federal Way January 1, 2017 through December 31, 2017

This schedule presents the status of federal findings reported in prior audit periods.

Audit Period: January 1, 2016 through December 31, 2016	Report Ref. No.: 1019828	Finding Ref. No.: 2016-001	CFDA Number(s): 14.248
Federal Program Name and Granting Agency: U.S. Department of Housing and Urban Development – Community Development Block Grants – Section 108 Loan Guarantees	Pass-Through Agency Name: NA		
Finding Caption: The City did not have evidence of adequate internal controls to ensure compliance with federal procurement and suspension and debarment requirements.			
Background: During fiscal year 2016, the City of Federal Way spent \$2,925,000 in Section 108 Loan Guarantee monies to finance a Performing Arts and Entertainment Center (PAEC). The PAEC project began in 2012 when the City awarded a design build contract. At that time, there were no federal dollars associated with this project. In 2014, the City terminated the design build contract and entered into six personal service contracts, five of which were with established vendors on this project.			
Status of Corrective Action: (check one) <input checked="" type="checkbox"/> Fully Corrected <input type="checkbox"/> Partially Corrected <input type="checkbox"/> Not Corrected	<input type="checkbox"/> Finding is considered no longer valid		
Corrective Action Taken: <i>We have corrected the error and put in place procedures to prevent future occurrence.</i>			

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

**City of Federal Way
January 1, 2017 through December 31, 2017**

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Federal Way, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 19, 2018.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

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



Pat McCarthy

State Auditor

Olympia, WA

June 19, 2018

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

City of Federal Way January 1, 2017 through December 31, 2017

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

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

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

Management's Responsibility

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

Auditor's Responsibility

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

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

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

Opinion on Each Major Federal Program

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

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

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

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

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

Purpose of this Report

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

A handwritten signature in black ink that reads "Pat McCarthy". The signature is fluid and cursive, with "Pat" on the left and "McCarthy" on the right, connected by a flourish.

Pat McCarthy

State Auditor

Olympia, WA

September 25, 2018

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

City of Federal Way January 1, 2017 through December 31, 2017

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

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Federal Way, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed on page 15.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Federal Way, as of December 31, 2017, and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparison for the General, Street, Utility Tax and Performing Arts & Event Center Operations funds, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information listed on page 15 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

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

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated June 19, 2018 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Pat McCarthy

State Auditor

Olympia, WA

June 19, 2018

FINANCIAL SECTION

City of Federal Way January 1, 2017 through December 31, 2017

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2017

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2017

Statement of Activities – 2017

Balance Sheet – Governmental Funds – 2017

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

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

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

Statement of Revenues, Expenditures and Changes in Fund Balance – Budget to Actual – Street Fund – 2017

Statement of Revenues, Expenditures and Changes in Fund Balance – Budget to Actual – Utility Tax Fund – 2017

Statement of Revenues, Expenditures and Changes in Fund Balance – Budget to Actual – Performing Arts & Event Center Operations Fund – 2017

Statement of Net Position – Proprietary Funds – 2017

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

Statement of Cash Flows – Proprietary Funds – 2017

Notes to the Financial Statements – 2017

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of the City's Proportionate Share of the Net Pension Liability – PERS 1,
PERS 2/3, LEOFF 2 – 2017

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

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Expenditures of Federal Awards – 2017

Notes to the Schedule of Expenditures of Federal Awards – 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Federal Way, we offer readers of our annual financial report a narrative overview, and an analysis of the financial activities of the City of Federal Way for the fiscal year ended December 31, 2017. We encourage readers to consider the information in conjunction with the preceding letter of transmittal, the financial statements and notes to the financial statements that follow.

FINANCIAL HIGHLIGHTS

- The total assets plus deferred outflows of the City of Federal Way exceeded its liabilities plus deferred inflows at December 31, 2017 by \$585.8 million (Net Position). Capital Assets (net of depreciation and related debt) account for 89.3% of this amount with a value of \$523.2 million. Of the remaining net position of \$62.6 million, \$42.2 million may be used to meet the government's ongoing obligations to citizens and creditors, without legal restriction while the \$20.4 million are restricted for specific use. (See page 29).
- The City's total net position increased by \$16.8 million, or 3.0% above 2016 as referenced on page 17. Governmental activities increased by \$13.5 million or 2.7% while business-type activities increased by \$3.3 million or 5.1%. The increase in governmental and business-type activities is primarily due to the increase in capital assets (See note 8 on page 59). More detail is described in the analysis below.
- Net investment in capital assets increased by \$23.3 million (See note 8 on page 59) and unrestricted net position decreased by \$5.5 million respectively under 2016 as referenced on page 17.
- Restricted Net Position of \$20.4 million decreased by \$0.9 million or 4.4% primarily due spending down real estate excise tax and LIFT funding on capital projects. Restricted Net Position is for funding of capital projects and debt service. (page 17)
- Long term liabilities decreased by \$6.2 million or 12.0% primarily due to the reduction of \$2.9 million in net pension liability (see note 11 on page 70) for GASB 68 pension reporting, pay down of \$2.2 million on target property from sale of the land, long term debt decrease of \$1.0 million for General obligation debt, and public works trust fund loans that decreased by \$0.1 million during the current fiscal year. (See Note 11 on page 70).
- Governmental fund balances at year-end were \$38.4 million, a \$10.9 million or 28% decrease from the prior year. Of the \$38.4 million, \$5.3 million, or 13.8% of the governmental fund balance is unassigned and available to fund ongoing activities. The remaining \$33.1 million is earmarked for debt service, paths & trails reserve, hotel/motel lodging tax, police special funds, petty cash/change funds, court trust fund, advance travel, strategic opportunities reserve, streets maintenance and capital projects. (See page 32 and page 52).
- Unrestricted or Unassigned fund balance in the General Fund was \$13.4 million, which decreased by \$0.4 million or 3.0% from the prior year.

OVERVIEW OF FINANCIAL STATEMENTS

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

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

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

Government-wide Financial Statements

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

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

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

The City has no separately identified component units included in the government-wide financial statements. The City has reported its investment in two governmental joint ventures: Valley Communications Center and South Correctional Entity (SCORE). Descriptions of these joint ventures are found in Note 14 of the notes to the financial statements.

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

Fund Financial Statements

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

Governmental Funds

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

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

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

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

Proprietary Funds

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

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

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

Notes to the Financial Statements

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

Other Information

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

CONDENSED STATEMENT OF NET POSITION
As of December 31, 2017 and 2016

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Current and other assets	\$ 91,707,136	\$97,131,758	\$ 8,067,357	\$7,172,824	\$ 99,774,493	\$ 104,304,582
Capital assets and CIP, net of accum depreciation	481,042,371	463,159,714	61,865,439	59,348,005	542,907,810	522,507,719
Total assets	572,749,507	560,291,472	69,932,796	66,520,829	642,682,303	626,812,301
Deferred outflows of resources	2,215,367	3,934,973	226,900	307,122	2,442,267	4,242,095
Total deferred outflows of resource	2,215,367	3,934,973	226,900	307,122	2,442,267	4,242,095
Long-term liabilities	44,030,949	49,981,388	1,674,958	1,962,748	45,705,907	51,944,136
Other liabilities	9,318,671	9,162,665	759,603	615,837	10,078,274	9,778,502
Total liabilities	53,349,620	59,144,053	2,434,561	2,578,585	55,784,181	61,722,639
Deferred inflows of resources	3,318,127	319,074	227,081	28,541	3,545,208	347,615
Total deferred inflows of resources	3,318,127	319,074	227,081	28,541	3,545,208	347,615
Net position:						
Net investment in:						
capital assets	461,491,598	440,815,201	61,673,201	59,059,646	523,164,799	499,874,847
Restricted	20,412,211	21,372,596	33,440	18,438	20,445,651	21,391,034
Unrestricted	36,393,318	42,575,521	5,791,413	5,142,741	42,184,731	47,718,262
Total net position	\$ 518,297,127	\$ 504,763,318	\$ 67,498,054	\$ 64,220,825	\$ 585,795,181	\$ 568,984,143

Analysis of Net Position

Total net position of the primary government of \$585.8 million at December 31, 2017 increased by \$16.8 million or 3.0% compared to December 31, 2016. The increase is due to governmental type activities increase of \$13.5 million, and business-type activities increase of \$3.3 million. More detail on the changes in net position are described below under Governmental and Business-Type activities.

The largest component of the City's net position, 89% or \$523.2 million, is net investment in capital assets. These capital assets such as land, streets, trails, parks, police vehicles, and parks equipment are used to provide services to the citizens. Consequently, these assets are not available to sell and convert to cash for future spending.

Approximately 2.3% or \$13.6 million (page 29) of the total net position of the city are restricted for use on capital projects or are earmarked for current approved capital projects. Some of the major capital projects the funds are being used for include the trail and pedestrian access improvements, SR99 HOV Lanes Phase V project, SW 336th Way/SW 340th Street: 26th Place SW-Hoyt Road, Traffic safety improvement projects, and Grand staircase project. The City attempts to fund capital construction projects on a pay-as-you-go basis, aggressively pursuing grant funding and cost sharing with developers to construct large projects in the City that impact the economy and transportation systems.

The remaining balance of restricted net position of \$6.8 million are for: \$0.32 million for police special funds, and court trust, \$0.03 million for steel lake and north lake management districts, \$0.03 million for prepaid insurance/debt and flex plan, \$0.61 million for peg and franchise fees for educational and governmental access services, \$0.97 million for lodging tax, \$0.76 million for paths and trails, \$0.03 million for Community Development Block Grant, and \$4.11 million for debt service.

The unrestricted business-type activities portion of \$5.8 million; \$4.5 million can only be spent on surface water management and the remaining \$1.3 million on improvements to Dumas Bay Centre and Knutzen Family Theatre. Maintenance of catch basins, pump stations, storm drain flushing, and other capital construction projects such as S 356th Street RDF Retrofit are examples of utility activities.

Other functions of the City may access the remaining \$36.4 million in governmental activities unrestricted net position to meet ongoing obligation to citizens and creditors. Examples of other City obligations which net position may be used for are public safety, economic development, parks maintenance, ongoing street maintenance, and committed funds for capital projects.

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

Governmental Activities:

Current and other assets decreased by \$5.4 million or 5.6% primarily due to a decrease of \$9.3 million in cash and cash equivalents and investments due to \$2.9 million used for ongoing construction of PAEC, \$0.9 million real estate excise tax used for street capital projects, \$4.5 million from the fleet & equipment fund loaned to the PAEC, and \$1.0 million used for ongoing services provided in the General Fund, decrease of \$0.8 million in accounts receivable for utility work performed by the City for local utilities on Transportation capital projects, offset by a net pension asset increase of \$3.6 million, restricted assets increase of \$0.7 million in retainage for construction of PAEC and street capital projects, and \$0.4 million increase in investment in joint venture for SCORE and Valleycomm.

Capitals assets and CIP, net of accumulated depreciation increased by \$17.9 million or 3.9% primarily due to the net addition of assets in the current year of \$20.2 million, offset by a prior period adjustment of \$2.3 million (See Note 8 on page 59). This is primarily due to a net addition of \$20.5 million in construction in progress for PAEC, transportation infrastructure projects that include roads, sidewalks, streetlights, and traffic signals for projects such as SR99 HOV Lanes Phase V and South 356th Street SR99 to SR161. In addition \$0.8 million in land was dedicated to the City for right-of-way purposes, offset by the \$2.0 sale of Target property land. Buildings and Improvements Other than Buildings decrease of \$3.0 million is due to current year depreciation. Machinery & Equipment net decrease of \$0.5 million is due to current year depreciation offset by the addition of Information Technology equipment, and vehicles for the City. Infrastructure net increase of \$2.2 million is primarily due to the addition of roads, streetlights, sidewalks, and traffic signals for S 320th St. at 20th Ave S, S 352nd Street extension from SR99 to SR161, and other traffic related projects, offset by current year depreciation for infrastructure.

Deferred outflows of resources decreased by \$1.7 million for governmental activities due to higher than expected earnings on pension plan investments for GASB 68 state sponsored pension plans. (See Note 9 on page 61).

Long-term liabilities decreased by \$6.0 million or 11.9% due to the reduction of \$2.7 million net pension liability for GASB 68 state sponsored pension plan, \$2.2 million on target property from sale of the land, and long term debt decrease of \$1.0 million for General obligation debt. (See Note 11 on page 70).

Other liabilities increased by \$0.2 million or 34.4% primarily due to decreased liabilities at the end of the year of \$0.5 million in accrued vouchers payable and customer deposits for Performing Arts & Event Center construction and environmental review for development projects, offset by \$0.7 million increase in retainage payable for construction of PAEC and street capital projects.

Deferred inflows of resources increased by \$3.0 million for governmental activities due to higher than expected earnings on pension plan investments for GASB 68 state sponsored pension plans. (See Note 9 on page 61).

Net investments in capital assets increased by \$20.7 million or 4.7% primarily due to an increase capital assets and CIP, net of accumulated depreciation explained in the above capital assets description (See note 8 and note 15 on pages 59 and 76), and a decrease in long-term liabilities related to debt for the target property due to sale of land.

Restricted net position represents amounts that must be used in accordance with external restrictions, and decreased by \$1.0 million or 4.5% from the prior year primarily due to additional REET and LIFT restricted funding used for capital projects. Other restricted funding is comprised of debt service, peg fees for government access channel under contracts and studies fund (page 52), paths & trails funding, and lodging tax.

The remaining Unrestricted net position decreased by \$6.2 million or 14.5% primarily due to the use of cash and cash equivalents for the ongoing construction of Performing Arts & Event Center, and decreased deferred outflows related to higher than expected earnings on pension plan investments for GASB 68 state sponsored pension plans described above.

Business-Type Activities:

Current and other assets increased by \$0.9 million or 12.5% primarily due to an increase in cash and cash equivalents of \$0.4 million from surface water management operations, \$0.8 million increase in Dumas Bay Centre operation rentals, and a decrease of \$0.3 million in grants from surface water management capital projects.

Capitals assets and CIP, net of accumulated depreciation increased by \$2.5 million or 4.2% primarily due a net increase of \$0.8 million in construction in progress for S 320th St. at 20th Ave S Intersection, Sacajawea Safe Routes to Schools, S 352nd Extension, Marine Hills Conveyance System, and other surface water management projects. In the current year, there was a land addition of \$0.1 million, infrastructure addition of \$2.4 million, machinery and equipment addition of \$0.02 million, offset by the addition of accumulated depreciation of \$0.8 million. (See Note 8 on page 59).

Deferred outflows of resources decreased by \$0.08 million for business-type activities due to higher than expected earnings on pension plan investments for GASB 68 state sponsored pension plans. (See Note 9 on page 61).

Long-term liabilities decreased by \$0.3 million due to current year GASB 68 adjustment to pension liability of \$0.2 million and paying down of Public works trust fund loans. (See Note 9 and 11 on pages 61 and 70).

Other liabilities increased by \$0.1 million or 23.3% primarily due to having additional voucher liabilities at the end of the year for Surface Water Management. This is due to more invoices for Surface Water Management operations at the end of the year.

Deferred inflows of resources increased by \$0.2 million for business-type activities due to higher than expected earnings on pension plan investments for GASB 68 state sponsored pension plans. (See Note 9 on page 61).

Net investments in capital assets increased \$2.6 million or 4.4% primarily due to a \$2.6 million increase in surface water management construction in progress and infrastructure described above, and a low outstanding balance in Public Works trust fund loan.

Unrestricted net position increased by \$0.6 million or 12.6% primarily due to the increases in current and other assets described above.

CHANGES IN NET POSITION
For the Years Ended December 31, 2017 and 2016

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Revenues :						
Programs revenues :						
Charges for services	\$ 17,113,413	\$ 14,210,158	\$ 4,997,202	\$ 4,900,531	\$ 22,110,615	\$ 19,110,689
Operating grants & contrib.	6,238,698	5,638,756	53,282	68,970	6,291,980	5,707,725
Capital grants & contrib.	14,864,266	15,863,183	1,078,904	790,033	15,943,170	16,653,215
General revenues :						
Property taxes	10,718,060	10,539,623	-	-	10,718,060	10,539,623
Sales tax	14,199,460	14,222,497	-	-	14,199,460	14,222,497
Local criminal justice sales tax	2,616,306	2,499,527	-	-	2,616,306	2,499,527
Utility tax	12,425,975	11,902,866	-	-	12,425,975	11,902,866
Real estate excise tax	4,226,344	5,265,138	-	-	4,226,344	5,265,138
Other taxes	1,063,079	477,055	-	-	1,063,079	477,055
Other	3,836,850	1,526,995	60,544	45,405	3,897,394	1,572,399
Total Revenue	87,302,451	82,145,796	6,189,932	5,804,937	93,492,384	87,950,733
Expenses:						
General government	4,179,619	4,544,037	-	-	4,179,619	4,544,037
Security of persons & property	36,632,272	36,018,643	-	-	36,632,272	36,018,643
Transportation	13,681,482	12,920,893	-	-	13,681,482	12,920,893
Physical environment	415,771	469,237	-	-	415,771	469,237
Economic environment	4,074,379	3,206,414	-	-	4,074,379	3,206,414
Health and human services	1,714,311	1,501,057	-	-	1,714,311	1,501,057
Culture and recreation	9,329,314	9,373,278	-	-	9,329,314	9,373,278
Interest on long-term debt	502,721	433,729	-	-	502,721	433,729
Surface Water Management	-	-	4,385,355	4,408,225	4,385,355	4,408,225
Dumas Bay Centre	-	-	1,179,967	1,104,971	1,179,967	1,104,971
Total Expenses	70,529,870	68,467,288	5,565,321	5,513,197	76,095,191	73,980,485
Change in net position before transfers	16,772,582	13,678,508	624,611	291,740	17,397,193	13,970,248
Transfers	(942,000)	633,124	942,000	(633,124)	-	(0)
Change in net position	15,830,582	14,311,632	1,566,611	(341,384)	17,397,193	13,970,248
Net position - beginning	504,763,318	490,451,686	64,220,825	64,828,447	568,984,143	555,280,133
Prior period adjustment Note 15	(2,296,773)	-	1,710,618	(266,237)	(586,155)	(266,237)
Net Effect - Change in Accounting for Pensions	-	-	-	-	-	-
Adjusted net position - beginning	502,466,545	490,451,686	65,931,443	64,562,209	568,397,988	555,013,895
Net position - ending	\$ 518,297,127	\$ 504,763,318	\$ 67,498,054	\$ 64,220,825	\$ 585,795,181	\$ 568,984,143

Analysis of the change in net position:

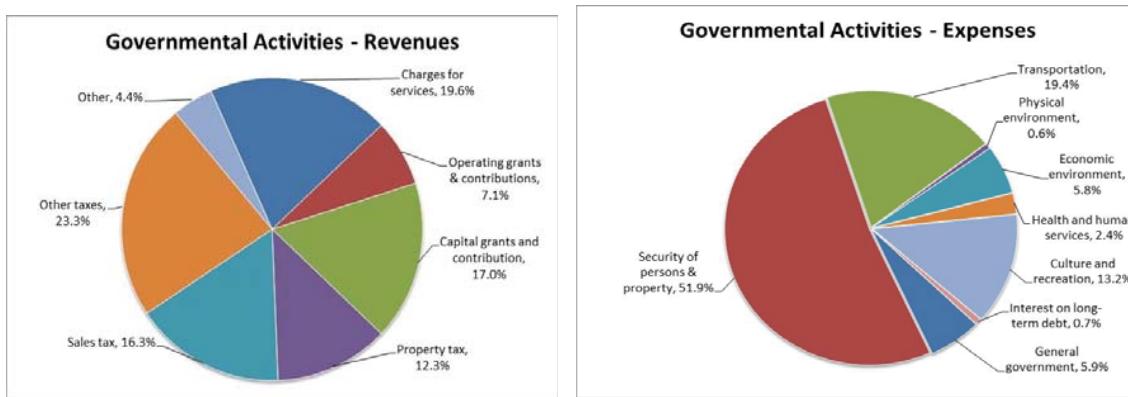
Total government-wide revenues of the primary government increased by \$5.5 million or 6.3% and total expenses increased by \$2.1 million or 2.9% over the prior year. These changes are discussed in more detail below.

Governmental Activities:

Governmental activities contributed \$15.8 million or 91.0% of the total change in net position of \$17.4 million. The prior year change in net position was \$14.0 million. The primary increase over 2016 is due to the following revenues, and expenses described below. There was also a reduction of \$2.3 million due to prior period adjustment for capital assets described in note 15 on page 76.

Total revenues for governmental activities increased by \$5.2 million or 6.3% due to charges for services increase of \$2.9 million, which is made up of \$1.2 million in revenue from transportation impact fees and utility work performed by the City for local utilities on Transportation capital projects, inspection and plan checking fees of \$0.2 million, business license fees of \$0.2 million, Lakehaven franchise fees of \$0.5 million, building permits of \$0.2 million, red light traffic infraction revenue of \$0.3 million, PAEC operational revenue of \$0.2 million, and mitigation impact fees for Parks capital projects of \$0.1 million; taxes and general revenue increase by \$2.7 million which includes sales tax and criminal justice sales tax of \$0.1 million, property tax of \$0.2 million, utility tax of \$0.5 million, other taxes of \$0.6 million (admissions tax), and other revenue of \$2.3 million primarily due to new market tax credits received for PAEC and increased investment earnings, decrease in real estate excise tax of \$1.0 million; decrease of \$0.4 million in operating and capital grants and contributions (PAEC capital grants decrease \$5.9 million, street capital grants increase of \$5.0 million, and Community Development Block Grant increase of \$0.4 million).

Total expenses for governmental activities increased by \$2.1 million or 3.0%. The net increase is due to increases in the following expense categories: A \$0.6 million increase in "Security of persons & property" is due to: \$0.6 million in salaries and wages from increased contracted and regular overtime, cost of living adjustments, health insurance and pension cost increases, and vacation payouts. A \$0.9 million increase in "Economic Environment" is due to: \$0.9 million in salaries and wages and professional services related to the operation of the new Performing Arts and Event Center. A \$0.2 million increase in "Health and human services" is due to: \$0.2 million increase in Community Development Block Grant expenditures for low income housing acquisition. A \$0.8 million increase in "Transportation" is due to \$0.3 million increase in asphalt overlay of streets, \$0.2 million increase in electricity for streetlights, and \$0.3 million increase in street and traffic maintenance. A \$0.4 million decrease in "General government" is due to a reduction in pension expense of \$0.2 million for GASB 68 pension reporting, and a reduction in outside legal services of \$0.2 million.

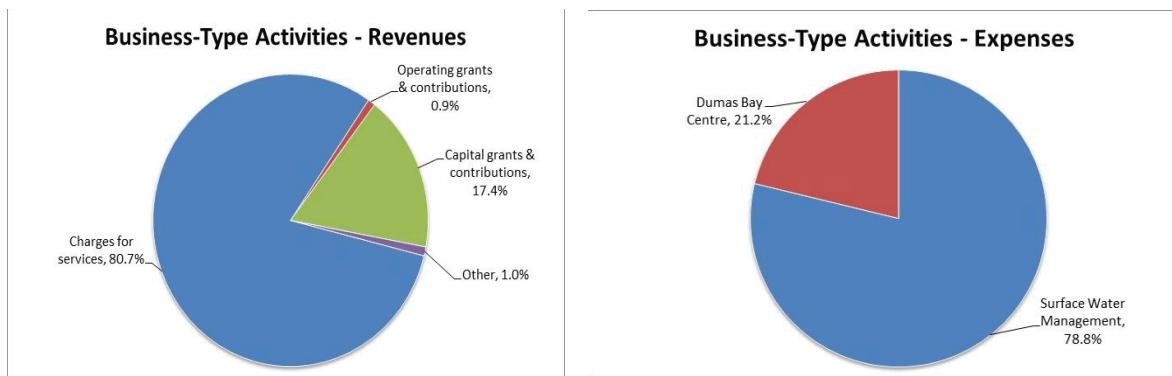


Business-Type Activities:

Business-type activities of the City's Surface Water Management system and Dumas Bay Centre increased the City's net position by \$1.6 million. There was also an addition of \$1.7 million for prior period adjustment for capital assets described in note 15. The primary change compared to 2016 is due to the following revenues and expenses described below.

Total revenues increased by \$0.4 million or 6.6% over 2016, due to an increase in grant revenue for Surface Water Management capital projects. Transfers net change of \$1.6 million is primarily due to no transfers out from surface water management in 2017 to transportation capital projects of \$1.0 million, and an increase in transfers in to Dumas Bay Centre of \$0.6 million.

Total expenses decreased by \$0.05 million or 0.9% due to a decrease in Surface Water Management maintenance services of \$0.1 million and a \$0.05 million increase in temporary help and supplies for Dumas Bay Centre (DBC) operations.



FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

Governmental funds

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

As of the end of 2017, the City's governmental funds had a combined ending fund balance of \$38.4 million which is a decrease of \$10.9 million from the prior year. Approximately 35% or \$13.4 million of the fund balance amount is unrestricted General Fund balance, which is available for spending at the City Council's discretion. Non-spendable fund balance of \$0.3M is comprised of court trust and prepaid insurance/flex plan of \$0.3M. Restricted fund balance of \$20.2M is comprised of \$6.5M in transportation capital project funding sources including real estate excise tax (REET), mitigation impact fees, surface water management fees, and gas tax; \$4.1M for future debt service payments; \$1.8M in parks capital project funding sources including REET, mitigation impact fees, and paths and trails funding; \$0.9M LIFT sales tax for downtown redevelopment infrastructure and parks projects; \$1.0M in hotel/motel lodging tax for promotion of tourism; \$0.8M in paths & trails parks levy dedicated for paths & trails projects; \$0.6M for special contracts/studies, \$0.03M in REET for city facilities capital projects, \$4.3M in REET for future capital projects and debt service payments, \$0.1M in Police seizure funds, and \$0.03M for Community Development Block Grant funds. Committed fund balance of \$12.7M includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. The committed fund balance is detailed by fund under the fund balance classification in Note1.

The General Fund is the chief operating fund of the City. Revenues and other sources totaling \$49.3M and expenditures and other uses totaling \$49.6M, resulted in a total fund balance decrease by \$0.3 million or 2.7%. Total ending fund balance of \$13.7M, is \$0.02M below the budgeted ending fund balance in the fund of \$13.8M. Fund balance policy resolution 18-732 set the General Fund and strategic reserve policy at \$12M. The City decreased its transfer in from other sources to General Fund as

reflected in the transfer in included in the Statement of Revenues, Expenditures, and Changes in Fund Balances Governmental Funds to \$9.63M in 2017, compared to \$10.47M in 2016, and transfer out of \$2.80 in 2017, compared to \$3.69 in 2016.

The Street Fund has a total fund balance of \$0.6 million which increased by \$0.06 million from 2016 primarily due to increased Public Works permits and fees.

The Utility Tax Fund was established to account for the 6% utility tax receipts collected by State statute for capital, debt, and other maintenance & operations as determined by Council and the remaining 1.75% is for Voter Approved enhanced Police and Community Safety in 2007. Total fund balance of 2016 decreased by \$0.8 million or 26% from \$3.7 million due to additional need for support of General Fund operations, Performing Arts & Event Center (PAEC) operations, payment of PAEC interfund loan, and reserve for future maintenance of City buildings. In addition, there has been an increase in pay for Police positions paid out of the fund.

The Debt Service Fund has a total fund balance of \$4.1 million, a \$1.6 million increase over the \$2.5 million 2016 fund balance. The City has adequate funds to service its annual debt payments.

The Performing Arts and Event Center Operations Fund was established to account for receipts and disbursements of the operation of the new Performing Arts & Event Center facility. The ending fund balance was \$477 and operations were subsidized by utility tax and general fund in the amount of \$0.7 million in 2017.

The Transportation Fund is used to account for the City's expenditures incurred to improve existing traffic signals, install new signalization, improve major roadways and arterials involving the design and construction of new sections of streets, the widening of roadways to provide additional vehicle lanes, and the installation of sidewalks and landscaping. The major source of revenue for this fund is grants from other agencies and contributions from other funds. Total ending fund balance increased by \$0.04 million from \$10.0 million in 2016 due to transferring in from REET and LIFT funds for large projects such as the Grand Staircase project, and SW 336th Way/SW 340th St: 26th Pl. SW. to Hoyt Road.

The Performing Arts & Event Center Fund was used to accumulate the cost for the construction of the arts & event center. Ending fund balance decreased by 9.5 million due to paying for the final phases of construction.

Proprietary funds

The City of Federal Way's proprietary funds provide the same type of information found in the government-wide, but in more detail. Unrestricted net assets of the Surface Water Management Fund at the end of the year amounted to \$4.5 million, and those for Dumas Bay Centre amounted to \$1.3 million. The total changes in net position for both funds were \$0.9 million increase and \$0.7 million increase, respectively. Other factors concerning the finances of these two funds have already been addressed in the discussion of the City of Federal Way's business-type activities.

GENERAL FUND BUDGETARY AND ACTUAL HIGHLIGHTS

The City of Federal Way budgets on a biennial basis with each budget beginning in an odd numbered year. Appropriations for operating funds are authorized for two years, but must be reviewed and reauthorized by the City Council in the middle of the biennial period. In 2017, the City made budget adjustments. The following discussion is reflective only of the current year of the biennium.

The General Fund operating expenditure and other financing use budgets increased by \$0.5 million and \$0.9 million respectively between the original adopted budget and the adjusted budget for the 2017 fiscal year. The following is the major changes for the 2017 budget:

- Added \$0.36 million for restoring fleet & equipment replacement reserves to original levels.
- Added \$0.11 million for contracted vacation payout for Police.
- Added \$0.05 million for Department of Commerce Day Shelter grant expenditures.
- Added \$0.02 million for Port of Seattle grant expenditures.
- Added \$0.08 million in outside legal services.
- Added \$0.02 million in professional urban planning services for Parks.
- Added \$0.93 million transfer out to subsidize the Street Fund operations.
- Reduced \$0.11 million in IT support and equipment for new Police Officers.

Budget adjustments to revenues and other sources include: Adjustments to beginning balance of \$1.08 million; increase in criminal justice sales tax of \$0.05 million; increase in state shared revenue of \$0.22 million; increase in Police overtime contracted revenue of \$0.10 million; increase in state and local grants of \$0.16 million; increase in Parks recreation rental revenue of \$0.08 million; increase in State seizure revenue of \$0.07 million; increase in utility tax transfer in of \$1.0 million; decrease in business license revenue of \$0.20 million; decrease in sales tax of \$0.12 million; and decrease in court revenue of \$0.15 million.

The General Fund ending fund balance of \$13.75 million is \$0.02 million below the projected \$13.77 million for 2017 year-end.

The \$0.02 million decrease in ending fund balance is made up of \$0.60 million decrease in revenues/other sources and a decrease of \$0.58 million in expenditures/other uses.

The \$0.60 million decrease in revenues/other sources is primarily attributed to a decrease of \$1.07 million in transfer in from the Utility Tax Fund, offset by an increase in taxes of \$0.45 million comprised of \$0.25 million in sales and criminal justice sales tax, \$0.15 million in admissions tax, and \$0.05 million in gambling tax.

The \$0.58 million unspent expenditures/other uses are primarily attributable to: \$1.39 million in various savings and timing of payments in General Fund departments such as City Council, Mayor's Office, Economic Development, Law, Municipal Court, and the hiring delay of Police Officers, offset by an increase of \$0.81 in transfers out of the General Fund for future debt service payments.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The City of Federal Way's investment in capital assets for its governmental and business-type activities as of December 31, 2017 amounts to \$543.0 million (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, infrastructure, park facilities and construction in progress. For more details, please see Note 8, and prior period adjustment Note 15, pages 59 and 76.

CAPITAL ASSETS AT YEAR-END, NET OF DEPRECIATION

	Governmental Activities		Business-Type Activities		Total	
					2017	2016
Land	\$ 280,152,612	\$ 11,340,293	\$ 291,492,905	\$ 292,654,983		
Building and improvements	27,677,385	4,520,279	32,197,664	35,433,061		
Machinery and equipment	6,599,163	83,301	6,682,464	7,131,481		
Infrastructure	110,543,046	45,090,749	155,633,795	151,665,984		
Construction in progress	56,070,165	830,817	56,900,982	35,622,212		
Total Capital Assets	\$ 481,042,371	\$ 61,865,439	\$ 542,907,810	\$ 522,507,720		

Major capital asset events during the current fiscal year included the following amounts: Construction in progress added for expanding and improving the city streets, traffic corridors, and surface water management totaled \$8.6 million and Performing Arts and Event Center and various park improvements for \$12.7 million. Additionally there was land purchased and donated of \$0.9 million offset by the sale of a portion land property of \$2.0 million, and buildings, improvements, and machinery and equipment decrease of \$3.7 million primarily due to current year depreciation on assets. There was also a net prior period adjustment of (\$0.6) million described in Note 15 of the financial statements. Remaining commitments for capital assets is described in Note 8.

Long-term debt

At the end of 2017, the City of Federal Way had total debt principal balance outstanding of \$32.7 million. The future principal and interest payments which are backed by the full faith and credit of the government will be \$43.8 million, and average annual debt service of \$1.3 million (See Note 11 pages 69 thru 72). The remainder of the City's debt represents Public Works Trust Fund Loans.

LONG-TERM DEBT (FUTURE PRINCIPAL AND INTEREST PAYMENTS)

	Governmental Activities	Business-Type Activities	Total
General obligation bonds	\$ 43,645,754	\$ -	\$ 43,645,754
Public works trust fund loan	-	195,123	195,123
Total	\$ 43,645,754	\$ 195,123	\$ 43,840,877

The City's total debt decreased by \$3.3 million due to net of annual debt service payments and pay down of 2014 KeyBank Bond Anticipation Note.

In February 2017, Moody's Investors Service upgraded from Aa3 to Aa2 rating for the City's 2013 Limited Tax General Obligation Refunding Bonds.

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

The City's taxable assessed valuation for 2017 was \$10.227 billion and the total amount of debt the City may issue is \$737.9 million. Remaining legal debt capacities as of December 31, 2017 are:

General government (no vote required)	\$124,321,295 (1.5% X 10.227) +\$3.5M - \$32.6M
General government (3/5 majority vote required)	\$102,268,064 (1.0% X 10.227)
Parks and open space (3/5 majority vote required)	\$255,670,161 (2.5% X 10.227)
Utilities (3/5 majority vote required)	\$255,670,161 (2.5% X 10.227)
Total Capacity	\$737,929,681 (See page 132)

Additional information on the City of Federal Way's long-term debt can be found in Note 11 on pages 69 thru 72 and in the Statistical Section of this report.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the City of Federal Way's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Finance Department, City of Federal Way, 33325 8th Avenue South, Federal Way, Washington 98003, telephone 253-835-2527, or visit the City's website at www.cityoffederalway.com.

STATEMENT OF NET POSITION

December 31, 2017

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash & cash equivalents	\$ 47,574,732	\$ 6,686,787	\$ 54,261,519
Investments	8,410,077	1,164,378	9,574,455
Receivables (net)	2,578,442	163,108	2,741,550
Due from other governments	5,341,752	53,084	5,394,836
Prepaid items	35,940	-	35,940
Restricted assets:			
Seizure funds/covert funds/municipal trust/retainage	1,849,895	-	1,849,895
Investment in joint venture	19,883,918	-	19,883,918
Capital assets not being depreciated:			
Land	280,152,612	11,340,293	291,492,905
Construction in progress	56,070,165	830,817	56,900,982
Buildings/structures	19,204,689	884,043	20,088,732
Improvements other than buildings	8,472,696	3,636,236	12,108,932
Machinery and equipment	6,599,163	83,301	6,682,464
Infrastructure	110,543,046	45,090,749	155,633,795
Net Pension Asset	<u>6,032,380</u>	<u>-</u>	<u>6,032,380</u>
Total Assets	<u>572,749,507</u>	<u>69,932,796</u>	<u>642,682,303</u>
DEFERRED OUTFLOWS OF RESOURCES RELATED TO PENSIONS			
	2,215,367	226,900	2,442,267
LIABILITIES			
Accounts payable and accruals	6,032,024	344,810	6,376,834
Unearned revenue	326,111	363,856	689,967
Retainage payable	1,628,347	41,317	1,669,664
Customer deposits	1,332,189	9,620	1,341,809
Noncurrent Liabilities:			
Due within one year	1,211,329	103,279	1,314,608
Due in more than one year	33,657,740	189,798	33,847,538
Net Pension Liability	<u>9,161,880</u>	<u>1,381,881</u>	<u>10,543,761</u>
Total Liabilities	<u>53,349,620</u>	<u>2,434,561</u>	<u>55,784,181</u>
DEFERRED INFLOW OF RESOURCES RELATED TO PENSIONS			
	<u>3,318,127</u>	<u>227,081</u>	<u>3,545,208</u>
NET POSITION			
Net investment in capital assets	461,491,598	61,673,201	523,164,799
Restricted for:			
Debt service	4,106,222	-	4,106,222
Capital projects	13,591,708	-	13,591,708
Steel Lake & North Lake Mgmt District	-	33,440	33,440
Other	2,714,281	-	2,714,281
Unrestricted	<u>36,393,318</u>	<u>5,791,413</u>	<u>42,184,731</u>
Total Net Position	<u>\$ 518,297,127</u>	<u>\$ 67,498,054</u>	<u>\$ 585,795,181</u>

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

STATEMENT OF ACTIVITIES
For the Year ended December 31, 2017

Functions/Programs	Program Revenues				Net (Expense) Revenue & Changes in Net Position		
	Charges for Expenses	Operating Grants and Services	Capital Grants and Contributions	Contributions	Governmental Activities	Business-type Activities	Total
<i>Governmental Activities:</i>							
General government	\$ 4,179,619	\$ 3,155,863	\$ 1,693,416	\$ -	\$ 669,660	\$ -	\$ 669,660
Security of persons & property	36,632,272	6,014,477	1,491,339	-	(29,126,456)	-	(29,126,456)
Transportation	13,681,482	2,886,690	1,922,228	13,894,326	5,021,763	-	5,021,763
Physical environment	415,771	314,842	129,316	-	28,387	-	28,387
Economic environment	4,074,379	2,171,579	-	969,940	(932,860)	-	(932,860)
Health	1,714,311	-	982,232	-	(732,079)	-	(732,079)
Culture & recreation	9,329,314	2,569,962	20,167	-	(6,739,185)	-	(6,739,185)
Interest on long-term debt	502,721	-	-	-	(502,721)	-	(502,721)
Total governmental activities	<u>\$ 70,529,870</u>	<u>17,113,413</u>	<u>6,238,698</u>	<u>14,864,266</u>	<u>(32,313,492)</u>	<u>-</u>	<u>(32,313,492)</u>
<i>Business-type Activities:</i>							
Surface Water Management	4,385,355	4,048,600	53,282	1,078,904	-	795,431	795,431
Dumas Bay Centre	1,179,967	948,602	-	-	-	(231,364)	(231,364)
Total business-type activities	<u>5,565,321</u>	<u>4,997,202</u>	<u>53,282</u>	<u>1,078,904</u>	<u>-</u>	<u>564,067</u>	<u>564,067</u>
Total	<u>\$ 76,095,191</u>	<u>\$ 22,110,615</u>	<u>\$ 6,291,980</u>	<u>\$ 15,943,170</u>	<u>(32,313,492)</u>	<u>564,067</u>	<u>(31,749,425)</u>
General revenues:							
Property tax					10,718,060	-	10,718,060
Sales tax					14,199,460	-	14,199,460
Local criminal justice sales tax					2,616,306	-	2,616,306
Utility tax					12,425,975	-	12,425,975
Real estate excise tax					4,226,344	-	4,226,344
Gambling tax					210,029	-	210,029
Hotel/motel tax					301,603	-	301,603
Admissions Tax					547,229	-	547,229
Leasehold excise tax					4,218	-	4,218
Other revenue					3,149,057	-	3,149,057
Investment earnings					544,858	60,544	605,402
Gain on sale of capital assets					142,935	-	142,935
Transfers					(942,000)	942,000	-
Total general revenues and transfers					<u>48,144,074</u>	<u>1,002,544</u>	<u>49,146,618</u>
Change in net position					<u>15,830,582</u>	<u>1,566,611</u>	<u>17,397,193</u>
Net position at beginning of year					<u>504,763,318</u>	<u>64,220,825</u>	<u>568,984,143</u>
Prior period adjustment (See Note 15)					<u>(2,296,773)</u>	<u>1,710,618</u>	<u>(586,155)</u>
Net Effect - Change in Accounting for Pensions					-	-	-
Adjusted beginning net position					<u>502,466,545</u>	<u>65,931,443</u>	<u>568,397,988</u>
Net position at end of year					<u>\$ 518,297,127</u>	<u>\$ 67,498,054</u>	<u>\$ 585,795,181</u>

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

BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2017

	General	Street	Utility Tax	Debt Service
ASSETS				
Cash and Cash Equivalents	\$ 10,222,065	\$ 1,114,802	\$ 1,576,783	\$ 3,492,598
Investments	1,837,470	195,687	277,029	613,624
Prepaid insurance/debt service	30,940	-	-	-
Receivables (net):				
Taxes	374,404	-	1,252,762	-
Accounts and contracts	161,530	21,658	-	-
Restricted cash	282,952	-	-	-
Due from other governments	1,869,643	102,212	1,101	-
Interfund loans receivable	<u>2,237,068</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL ASSETS	<u>17,016,072</u>	<u>1,434,359</u>	<u>3,107,675</u>	<u>4,106,222</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
Liabilities:				
Vouchers payable	941,291	301,119	3,650	-
Accounts/payroll payable	1,125,128	80,210	119,557	-
Retainage payable	1,888	-	-	-
Due to other governments	-	-	-	-
Deposits payable	896,967	394,648	-	-
Interfund loans payable	-	-	-	-
Unearned revenue	<u>67,732</u>	<u>70,113</u>	<u>-</u>	<u>-</u>
TOTAL LIABILITIES	<u>3,033,006</u>	<u>846,090</u>	<u>123,207</u>	<u>-</u>
DEFERRED INFLOWS OF RESOURCES FOR UNAVAILABLE PROPERTY TAXES				
Fund Balance:				
Nonspendable	252,550	-	-	-
Restricted	94,452	-	-	4,106,222
Committed	19,350	588,269	2,984,468	-
Unassigned	<u>13,380,099</u>	<u>588,269</u>	<u>2,984,468</u>	<u>4,106,222</u>
TOTAL FUND BALANCES				
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u>\$ 17,016,072</u>	<u>\$ 1,434,359</u>	<u>\$ 3,107,675</u>	<u>\$ 4,106,222</u>

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

BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2017

ASSETS	Performing Arts & Event Center Operations		Transportation	Performing Arts & Event Ctr	Nonmajor Governmental	Total
Cash and Cash Equivalents	\$ 78,491	\$ 7,446,353	\$ 45,831	\$ 12,770,818	\$ 36,747,741	
Investments	13,764	1,308,270	8,052	2,243,553	6,497,449	
Prepaid insurance/debt service	-	-	-	-	30,940	
Receivables (net):						
Taxes	-	-	-	215,306	1,842,472	
Accounts and contracts	208,546	79,884	-	14,237	485,855	
Restricted Cash	-	356,759	1,135,136	75,048	1,849,895	
Due from other governments	-	2,830,645	-	538,150	5,341,751	
Interfund loans receivable	-	-	-	-	2,237,068	
TOTAL ASSETS	<u>300,801</u>	<u>12,021,911</u>	<u>1,189,019</u>	<u>15,857,112</u>	<u>55,033,170</u>	
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES						
Liabilities:						
Vouchers payable	204,666	1,618,286	752,597	343,530	4,165,139	
Accounts/payroll payable	30,240	21,748	-	167,956	1,544,839	
Retainage payable	-	356,759	1,168,035	101,665	1,628,347	
Due to other governments	-	-	-	-	-	
Deposits payable	11,165	-	-	29,409	1,332,189	
Interfund loans payable	-	-	7,393,338	14,749	7,408,087	
Unearned revenue	<u>54,253</u>	<u>-</u>	<u>-</u>	<u>134,013</u>	<u>326,111</u>	
TOTAL LIABILITIES	<u>300,324</u>	<u>1,996,793</u>	<u>9,313,970</u>	<u>791,322</u>	<u>16,404,712</u>	
DEFERRED INFLOWS OF RESOURCES FOR UNAVAILABLE PROPERTY TAXES						
Fund Balance:						
Nonspendable	-	-	-	-	252,550	
Restricted	-	6,549,073	-	9,409,914	20,159,661	
Committed	477	3,476,045	-	5,655,876	12,724,485	
Unassigned	-	-	(8,124,951)	-	5,255,088	
TOTAL FUND BALANCES	<u>477</u>	<u>10,025,118</u>	<u>(8,124,951)</u>	<u>15,065,790</u>	<u>38,391,784</u>	
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u>\$ 300,801</u>	<u>\$ 12,021,911</u>	<u>\$ 1,189,019</u>	<u>\$ 15,857,112</u>		

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. See Note 8, difference is the Internal Service fund amount of \$12.04M on page 40	469,003,001
Investment in joint venture is not a financial resource and, therefore, not reported in the funds. See Note 14 \$19.88M.	19,883,918
Other long-term and non-current assets are not available to pay for current-period expenditures and, therefore, are not reported in the funds: includes deferred inflows, and net pension asset . See Note 6 \$237K & Note 9 \$6.03M (page 61)	6,269,056
Internal service funds are used to charge the costs of insurance, unemployment, information systems, mail and duplication, fleet, and building to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position. Page 40 Internal Svc Net Position \$29.31M - Adj \$59.2K + \$59.0K LT Comp Abs + \$573.4K Net Pension Liability (NPL) + \$94.2K Def Infl Rel to Pensions - \$93.3K Def Outfl Rel to Pensions	29,883,078
Long-term liabilities, including bonds payable, pension liability, and inflows/outflows related to pensions are not due and payable in the current period and, therefore, are not reported in the funds. See Note 11 -\$32.6M -\$2.0M - \$0.28M, In Govt Wide - \$9.16M NPL - \$3.32M Def Infl Rel to Pensions + \$2.22M Def Outfl Rel to Pensions	(45,133,710)
Net position of governmental activities	<u>\$ 518,297,127</u>

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

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

	General	Street	Utility Tax	Debt Service
REVENUES				
Taxes	\$ 28,084,812	\$ -	\$ 12,425,975	\$ -
Licenses and permits	3,928,648	196,971	-	-
Intergovernmental	2,313,935	1,386,654	-	-
Service charges and fees	3,616,999	516,303	-	-
Fines and forfeitures	945,711	-	-	-
Interest	211,196	5,516	21,552	24,251
Other	<u>529,739</u>	<u>46,761</u>	<u>-</u>	<u>-</u>
TOTAL REVENUES	<u>39,631,040</u>	<u>2,152,205</u>	<u>12,447,527</u>	<u>24,251</u>
EXPENDITURES				
Current:				
General government	4,385,913	-	-	-
Security of persons and property	33,014,398	201,649	2,761,229	-
Transportation	1,092,221	3,583,238	-	-
Physical environment	-	-	-	-
Economic environment	2,823,358	-	82,945	-
Health	962,317	-	-	-
Culture and recreation	4,478,499	-	110,656	-
Debt service:				
Principal	-	-	-	8,694,960
Interest/fiscal charges/admin fees	-	-	-	506,321
Capital outlay	<u>73,214</u>	<u>20,102</u>	<u>-</u>	<u>-</u>
TOTAL EXPENDITURES	<u>46,829,920</u>	<u>3,804,989</u>	<u>2,954,830</u>	<u>9,201,281</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(7,198,880)</u>	<u>(1,652,784)</u>	<u>9,492,697</u>	<u>(9,177,030)</u>
OTHER FINANCING SOURCES (USES)				
Bond proceeds	-	-	-	6,000,000
Sale of capital assets	-	-	-	1,837,715
Transfers in	9,631,425	1,714,542	-	2,937,023
Transfers out	<u>(2,798,139)</u>	<u>-</u>	<u>(10,256,148)</u>	<u>-</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>6,833,286</u>	<u>1,714,542</u>	<u>(10,256,148)</u>	<u>10,774,738</u>
NET CHANGE IN FUND BALANCES	<u>(365,594)</u>	<u>61,758</u>	<u>(763,451)</u>	<u>1,597,708</u>
FUND BALANCES - BEGINNING	<u>14,111,985</u>	<u>526,511</u>	<u>3,747,919</u>	<u>2,508,514</u>
FUND BALANCES - ENDING	<u>\$ 13,746,391</u>	<u>\$ 588,269</u>	<u>\$ 2,984,468</u>	<u>\$ 4,106,222</u>

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

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

	Performing Arts & Event Center Operations	Transportation	Performing Arts & Event Ctr	Nonmajor Governmental	Total
REVENUES					
Taxes	\$ -	\$ -	\$ -	\$ 4,706,642	\$ 45,217,429
Licenses and permits	- -	- -	- -	- -	4,125,619
Intergovernmental	- 11,929,693	- -	- -	2,554,633	18,184,915
Service charges and fees	152,102 1,799,637	- -	- -	2,438,023	8,523,064
Fines and forfeitures	- -	- -	- -	3,519,019	4,464,730
Interest	23,264 50,432	- -	4,477	101,778	442,466
Other	<u>148,461</u>	<u>-</u>	<u>2,118,386</u>	<u>305,710</u>	<u>3,149,057</u>
TOTAL REVENUES	<u>323,827</u>	<u>13,779,762</u>	<u>2,122,863</u>	<u>13,625,805</u>	<u>84,107,280</u>
EXPENDITURES					
Current:					
General government	- -	- -	- -	4,551	4,390,464
Security of persons and property	- -	- -	- -	1,725,711	37,702,987
Transportation	- 1,454,032	- -	- -	2,350,994	8,480,485
Physical environment	- -	- -	- -	425,900	425,900
Economic environment	1,195,466 -	- -	17,067	76,257	4,195,093
Health	- -	- -	- -	758,007	1,720,324
Culture and recreation	- -	- -	- -	2,584,544	7,173,699
Debt service:					
Principal	- -	- -	- -	159,000	8,853,960
Interest/fiscal charges/admin fees	- -	- -	- -	41,180	547,501
Capital outlay	<u>- 16,283,225</u>	<u>12,558,651</u>	<u>226,086</u>	<u>29,161,278</u>	
TOTAL EXPENDITURES	<u>1,195,466</u>	<u>17,737,257</u>	<u>12,575,718</u>	<u>8,352,230</u>	<u>102,651,691</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(871,639)</u>	<u>(3,957,495)</u>	<u>(10,452,855)</u>	<u>5,273,575</u>	<u>(18,544,411)</u>
OTHER FINANCING SOURCES (USES)					
Bond proceeds	- -	- -	105,000	- -	6,105,000
Sale of capital assets	- -	- -	350,041	- -	2,187,756
Transfers in	694,703 3,993,000	- -	500,000	2,135,966	21,606,659
Transfers out	<u>- -</u>	<u>- -</u>	<u>- -</u>	<u>(9,207,847)</u>	<u>(22,262,134)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>694,703</u>	<u>3,993,000</u>	<u>955,041</u>	<u>(7,071,881)</u>	<u>7,637,281</u>
NET CHANGE IN FUND BALANCES	<u>(176,936)</u>	<u>35,505</u>	<u>(9,497,814)</u>	<u>(1,798,306)</u>	<u>(10,907,130)</u>
FUND BALANCES - BEGINNING	<u>177,413</u>	<u>9,989,613</u>	<u>1,372,863</u>	<u>16,864,096</u>	<u>49,298,914</u>
FUND BALANCES - ENDING	<u>\$ 477</u>	<u>\$ 10,025,118</u>	<u>\$ (8,124,951)</u>	<u>\$ 15,065,790</u>	<u>\$ 38,391,784</u>

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

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

Amounts reported for governmental activities in the statement of activities (page 30) are different because:	<u>2017</u>
Net change in fund balances--total governmental funds (page 34)	\$ (10,907,130)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period. (page 53)	21,863,395
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. (page 53)	31,795
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the issuance proceeds of new debt as current financial resources and payment as the use of current resources, whereas these amounts reduce the net position. (page 53)	3,196,940
Internal service funds are used by management to charge costs of risk management, information systems, mail & duplication, fleet, and building systems to the funds. (page 41) -\$43K - \$8.6K	(51,987)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the funds.	1,697,568
Includes adjustment for GASB 68 pension reporting. (page 53) \$1.68M + \$19K	\$ 15,830,582
Change in net position of governmental activities (page 30)	

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

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
For Year Ended December 31, 2017

	<u>Budgeted Amounts</u>			Variance with Final Budget - Positive (Negative)
	Original	Final	Actual Amounts	
REVENUES				
Taxes	\$ 27,700,450	\$ 27,635,460	\$ 28,084,812	\$ 449,352
Licenses and permits	4,068,801	3,868,791	3,928,648	59,857
Intergovernmental	1,861,055	2,233,642	2,313,935	80,293
Service charges and fees	3,669,457	3,789,457	3,616,999	(172,458)
Fines and forfeitures	1,163,500	1,013,500	945,711	(67,789)
Interest	143,800	143,800	211,196	67,396
Other	357,900	477,900	529,739	51,839
TOTAL REVENUES	38,964,963	39,162,550	39,631,040	468,490
EXPENDITURES				
Current:				
General government	4,855,143	4,933,103	4,385,913	547,190
Security of persons and property	33,416,425	33,708,192	33,014,398	693,794
Transportation	1,152,931	1,152,931	1,092,221	60,710
Economic environment	2,913,836	2,930,859	2,823,358	107,501
Health	911,595	961,595	962,317	(722)
Culture and recreation	4,440,390	4,460,390	4,478,499	(18,109)
Capital outlay	-	73,214	73,214	-
TOTAL EXPENDITURES	47,690,320	48,220,284	46,829,920	1,390,364
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(8,725,357)	(9,057,734)	(7,198,880)	1,858,854
OTHER FINANCING SOURCES (USES)				
Transfers in	9,703,314	10,703,314	9,631,425	(1,071,889)
Transfers out	(1,060,864)	(1,990,864)	(2,798,139)	(807,275)
TOTAL OTHER FINANCING SOURCES (USES)	8,642,450	8,712,450	6,833,286	(1,879,164)
NET CHANGE IN FUND BALANCES				
FUND BALANCES - BEGINNING	(82,907)	(345,284)	(365,594)	(20,310)
	13,034,954	14,111,985	14,111,985	-
FUND BALANCES - ENDING	\$ 12,952,047	\$ 13,766,701	\$ 13,746,391	\$ (20,310)

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

STREET FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL

For Year Ended December 31, 2017

	<u>Budgeted Amounts</u>			Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual Amounts</u>	
REVENUES				
Licenses and permits	\$ 115,000	\$ 115,000	\$ 196,971	\$ 81,971
Intergovernmental	1,259,505	1,377,676	1,386,654	8,978
Service charges and fees	257,728	257,728	516,303	258,575
Interest	2,000	2,000	5,516	3,516
Other	34,000	34,000	46,761	12,761
TOTAL REVENUES	2,598,233	1,786,404	2,152,205	365,801
EXPENDITURES				
Current:				
Security of persons and property	208,404	208,404	201,649	6,755
Transportation	3,884,067	4,014,642	3,583,238	431,404
Capital outlay	-	20,102	20,102	-
TOTAL EXPENDITURES	4,092,471	4,243,148	3,804,989	438,159
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(1,494,238)	(2,456,744)	(1,652,784)	803,960
OTHER FINANCING SOURCES (USES)				
Transfers in	2,479,967	2,520,058	1,714,542	(805,516)
Transfers out	(930,000)	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	1,549,967	2,520,058	1,714,542	(805,516)
NET CHANGE IN FUND BALANCES	55,729	63,314	61,758	(1,556)
FUND BALANCES - BEGINNING	500,000	526,510	526,511	1
FUND BALANCES - ENDING	\$ 555,729	\$ 589,824	\$ 588,269	\$ (1,555)

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

UTILITY TAX FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
For Year Ended December 31, 2017

	<u>Budgeted Amounts</u>			Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual Amounts</u>	
REVENUES				
Taxes	\$ 11,571,540	\$ 12,181,908	\$ 12,425,975	\$ 244,067
Interest	6,000	6,000	21,552	15,552
TOTAL REVENUES	11,577,540	12,187,908	12,447,527	259,619
EXPENDITURES				
Current:				
Security of persons and property	2,802,298	2,802,298	2,761,229	41,069
Economic environment	96,308	96,308	82,945	13,363
Culture and recreation	100,337	100,337	110,656	(10,319)
TOTAL EXPENDITURES	2,998,943	2,998,943	2,954,830	44,113
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	8,578,597	9,188,965	9,492,697	303,732
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	-	-
Transfers out	(8,998,777)	(10,124,114)	(10,256,148)	(132,034)
TOTAL OTHER FINANCING SOURCES (USES)	(8,998,777)	(10,124,114)	(10,256,148)	(132,034)
NET CHANGE IN FUND BALANCES	(420,180)	(935,149)	(763,451)	171,698
FUND BALANCES - BEGINNING	2,920,180	3,747,920	3,747,919	(1)
FUND BALANCES - ENDING	\$ 2,500,000	\$ 2,812,771	\$ 2,984,468	\$ 171,697

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

**PERFORMING ARTS & EVENT CENTER OPERATIONS FUND STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES BUDGET AND
ACTUAL**

For Year Ended December 31, 2017

	<u>Budgeted Amounts</u>			Variance with Final Budget - Positive (Negative)	
	<u>Original</u>	<u>Final</u>	<u>Actual Amounts</u>		
REVENUES					
Service charges and fees	\$ 203,871	\$ 175,071	\$ 152,102	\$ (22,969)	
Interest	-	22,929	23,264	335	
Other	161,382	240,046	148,461	(91,585)	
TOTAL REVENUES	365,253	438,046	323,827	(114,219)	
EXPENDITURES					
Current:					
Economic environment	937,546	1,196,162	1,195,466	696	
TOTAL EXPENDITURES	937,546	1,196,162	1,195,466	696	
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(572,293)	(758,116)	(871,639)	(113,523)	
OTHER FINANCING SOURCES (USES)					
Transfers in	572,293	580,703	694,703	114,000	
TOTAL OTHER FINANCING SOURCES (USES)	572,293	580,703	694,703	114,000	
NET CHANGE IN FUND BALANCES	-	(177,413)	(176,936)	477	
FUND BALANCES - BEGINNING	-	177,413	177,413	-	
FUND BALANCES - ENDING	\$ -	\$ -	\$ 477	\$ 477	

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

STATEMENT OF NET POSITION
PROPRIETARY FUNDS

December 31, 2017

	Business-type Activities - Enterprise Funds			Governmental Activities
	Surface Water Management	Dumas Bay Centre	TOTAL	Internal Service
ASSETS				
Current Assets				
Cash and Cash Equivalents	\$ 5,082,060	\$ 1,545,505	\$ 6,627,565	\$ 10,886,213
Investments	892,881	271,497	1,164,378	\$ 1,912,628
Prepaid items	-	-	-	5,000
Receivables (net):				
Accounts and contracts	149,894	13,214	163,108	250,115
Due from other governments	53,084	-	53,084	-
Interfund loans receivable	-	-	-	5,171,019
TOTAL CURRENT ASSETS	<u>6,177,919</u>	<u>1,830,216</u>	<u>8,008,135</u>	<u>18,224,975</u>
Property, plant and equipment				
Land	9,230,653	2,109,640	11,340,293	-
Building/structures	832,086	3,673,262	4,505,348	16,545,121
Improvements other than buildings	3,602,033	314,901	3,916,934	-
Machinery/furniture/equipment	52,946	145,848	198,794	18,695,900
Infrastructure	60,788,019	-	60,788,019	-
Construction in progress	830,817	-	830,817	-
Less accumulated depreciation	<u>(16,030,097)</u>	<u>(3,684,668)</u>	<u>(19,714,765)</u>	<u>(23,201,650)</u>
TOTAL NONCURRENT ASSETS	<u>59,306,456</u>	<u>2,558,983</u>	<u>61,865,439</u>	<u>12,039,371</u>
TOTAL ASSETS	<u>65,484,375</u>	<u>4,389,199</u>	<u>69,873,574</u>	<u>30,264,346</u>
DEFERRED OUTFLOWS RELATED TO PENSIONS				
	<u>191,896</u>	<u>35,004</u>	<u>226,900</u>	<u>93,263</u>
LIABILITIES AND FUND EQUITY				
Current Liabilities:				
Vouchers/payroll payable	281,459	63,351	344,810	322,046
Unearned revenue	137,174	226,682	363,856	-
Retainage payable	36,705	4,612	41,317	-
Deposits payable	-	9,620	9,620	-
Public Works trust fund loan payable	96,120	-	96,120	-
Compensated absences payable	<u>5,973</u>	<u>1,186</u>	<u>7,159</u>	<u>-</u>
TOTAL CURRENT LIABILITIES	<u>557,431</u>	<u>305,451</u>	<u>862,882</u>	<u>322,046</u>
Long-term liabilities:				
Public Works trust fund loan payable	96,119	-	96,119	-
Compensated absences payable	78,156	15,523	93,679	59,027
Net Pension Liability	<u>1,166,677</u>	<u>215,204</u>	<u>1,381,881</u>	<u>573,386</u>
TOTAL LONG-TERM LIABILITIES	<u>1,340,952</u>	<u>230,727</u>	<u>1,571,679</u>	<u>632,413</u>
TOTAL LIABILITIES	<u>1,898,383</u>	<u>536,178</u>	<u>2,434,561</u>	<u>954,459</u>
DEFERRED INFLOWS RELATED TO PENSIONS				
	<u>191,716</u>	<u>35,365</u>	<u>227,081</u>	<u>94,223</u>
Net investment in capital assets	59,114,217	2,558,983	61,673,200	12,039,371
Restricted for:				
Steel Lake & North Lake Mgmt District	33,440	-	33,440	-
Unrestricted	<u>4,438,515</u>	<u>1,293,677</u>	<u>5,732,192</u>	<u>17,269,556</u>
TOTAL NET POSITION	<u>\$ 63,586,172</u>	<u>\$ 3,852,660</u>	<u>67,438,832</u>	<u>\$ 29,308,927</u>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds			59,222	
NET POSITION OF BUSINESS-TYPE ACTIVITIES			\$ 67,498,054	

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

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

For Year Ended December 31, 2017

	Business-type Activities - Enterprise Funds			Governmental Activities
	Surface Water Management	Dumas Bay Centre	TOTAL	Internal Service
OPERATING REVENUES:				
Service charges and fees	\$ 4,046,100	\$ 948,602	\$ 4,994,702	\$ 11,015,870
Intergovernmental	53,283	-	53,283	-
Miscellaneous	<u>2,500</u>	<u>-</u>	<u>2,500</u>	<u>77,090</u>
TOTAL OPERATING REVENUES	<u>4,101,883</u>	<u>948,602</u>	<u>5,050,485</u>	<u>11,092,960</u>
OPERATING EXPENSES:				
Personnel services	2,058,656	471,549	2,530,205	1,085,698
Materials and supplies	127,966	204,138	332,104	705,700
Services and charges	472,372	307,996	780,368	6,774,155
Intergovernmental	252,931	895	253,826	128,600
Depreciation	664,192	154,899	819,091	2,404,618
Interfund charges	<u>805,908</u>	<u>40,463</u>	<u>846,371</u>	<u>-</u>
TOTAL OPERATING EXPENSES	<u>4,382,025</u>	<u>1,179,940</u>	<u>5,561,965</u>	<u>11,098,771</u>
OPERATING INCOME (LOSS)	(280,143)	(231,338)	(511,481)	(5,811)
NON-OPERATING REVENUES (EXPENSES):				
Gain (Loss) from disposal of capital assets	-	-	-	32,735
Interest income	45,887	5,562	51,449	111,490
Interest expense	<u>(2,884)</u>	<u>-</u>	<u>(2,884)</u>	<u>-</u>
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>43,003</u>	<u>5,562</u>	<u>48,565</u>	<u>144,225</u>
INCOME (LOSS) BEFORE TRANSFERS	<u>(237,140)</u>	<u>(225,776)</u>	<u>(462,916)</u>	<u>138,414</u>
Capital contributions	1,078,904	-	1,078,904	104,747
Transfers in	-	942,000	942,000	713,475
Transfers out	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,000,000)</u>
CHANGE IN NET POSITION	841,764	716,224	1,557,988	(43,364)
NET POSITION - BEGINNING	61,033,790	3,136,436		29,352,291
Prior period adjustment	1,710,618	-		- Net
Effect - Change in Accounting for Pensions	-	-		-
ADJUSTED NET POSITION - BEGINNING	<u>62,744,408</u>	<u>3,136,436</u>		<u>29,352,291</u>
NET POSITION - ENDING	<u>\$ 63,586,172</u>	<u>\$ 3,852,660</u>		<u>\$ 29,308,927</u>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise			<u>8,623</u>	
CHANGES IN NET POSITION OF BUSINESS-TYPE ACTIVITIES			<u>\$ 1,566,611</u>	

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

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For Year Ended December 31, 2017

	Business-type Activities - Enterprise Funds			Governmental Activities
	Surface Water Management	Dumas Bay Centre	TOTAL	Internal Service
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash received from users	\$ 4,039,114	\$ 895,835	\$ 4,934,949	\$ 10,765,756
Cash payments to claimants	-	-	-	(558,371)
Cash payments to suppliers for goods/services	(442,784)	(487,536)	(930,320)	(6,758,355)
Cash payments to employees	(1,984,358)	(458,757)	(2,443,115)	(1,037,091)
Cash payments to other funds for goods and services	(805,906)	(40,463)	(846,369)	-
Cash payments to other governments for goods and services	(252,931)	(895)	(253,826)	(629,766)
Other operating receipts	394,687	-	394,687	77,089
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	947,822	(91,817)	856,006	1,859,262
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfers in	-	942,000	942,000	713,475
Transfers out	-	-	-	(1,000,000)
NET CASH PROVIDED BY NONCAPITAL FINANCING	-	942,000	942,000	(286,525)
CASH FLOWS FROM CAPITAL AND CAPITAL - RELATED FINANCING ACTIVITIES:				
Principal paid on debt service	(96,120)	-	(96,120)	-
Interest paid on debt service	(2,884)	-	(2,884)	-
Acquisition of capital asset/construction work in progress	(983,541)	(23,648)	(1,007,189)	(6,183,411)
Cash received from grants	460,191	-	460,191	-
Proceeds from the sale of capital assets	-	-	-	32,735
NET CASH USED FOR CAPITAL AND CAPITAL- RELATED FINANCING ACTIVITIES	(622,354)	(23,648)	(646,002)	(6,150,676)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Receipts of interest	45,882	5,564	51,446	111,489
NET CASH PROVIDED BY INVESTING ACTIVITIES	45,882	5,564	51,446	111,489
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	371,350	832,099	1,203,450	(4,466,451)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	5,603,591	984,903	6,588,494	17,265,292
CASH AND CASH EQUIVALENTS AT END OF YEAR	5,974,941	1,817,002	7,791,944	12,798,841
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES				
Operating Income/(loss)	(280,142)	(231,337)	(511,479)	(5,813)
Adjustments to reconcile operating income to net cash provided/(used) by operating activities:				
Increases/(decrease) in depreciation expense	664,192	154,899	819,091	2,404,618
(Increases)/decrease in accounts receivable	(27,435)	6,068	(21,367)	(250,114)
(Increases)/decrease in due from other governments	338,905	-	338,905	-
(Increases)/decrease in deferred outflows related to pensions	67,969	12,253	80,222	29,360
Increases/(decrease) in vouchers/accounts payable	126,466	21,365	147,831	(338,036)
Increases/(decrease) in retainage payable	31,089	-	31,089	-
Increases/(decrease) in deposits payable	-	3,233	3,233	-
Increases/(decrease) in deferred revenue	20,449	(58,836)	(38,387)	-
Increases/(decrease) in accrued payroll/compensated absences payable	11,014	(304)	10,710	(2,670)
Increases/(decrease) in net pension liability	(172,279)	(30,101)	(202,380)	(60,882)
Increases/(decrease) in deferred inflows related to pensions	167,594	30,945	198,539	82,799
TOTAL ADJUSTMENTS	1,227,964	139,521	1,367,485	1,865,074
NET CASH PROVIDED/USED BY OPERATING ACTIVITIES	\$ 947,822	\$ (91,817)	\$ 856,006	\$ 1,859,262
Non-cash investing, capital, and financing activities:				
Other contributions of capital assets				\$ 104,747

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

NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2017

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NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended December 31, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

REPORTING ENTITY

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

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

Financial Accountability

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

Joint Ventures

A joint venture is a legal entity or organization which results from a contractual arrangement that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which participants retain an ongoing financial interest or an ongoing financial responsibility. The City participates in two joint ventures: Valley Communications Center and South Correctional Entity (SCORE). See Note 14, Joint Ventures, which more fully describe these organizations.

BASIS OF PRESENTATION - GOVERNMENTAL-WIDE AND FUND FINANCIAL STATEMENTS

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

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

As a general rule the effect of the interfund activity has been eliminated for the government-wide financial statements. Separate fund financial statements are provided for governmental funds, and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

The City reports the following major governmental funds:

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

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

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

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

Performing Arts & Event Center Operations Fund – This fund was established to account for receipts and disbursements related to the operation of the new Performing Arts & Event Center facility.

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

Performing Arts & Event Center Fund – This fund was established to account for receipts and disbursements related to the construction of the Performing Arts and Event Center (PAEC).

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

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

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

The City reports the following major enterprise funds:

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

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

Additionally, the City reports following internal service funds:

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

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

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

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

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

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

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

Internal Service Funds account for goods and services provided to other departments or agencies of City of Federal Way, or to other governments, on a cost-reimbursement basis.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING

Government-Wide and Governmental Funds

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, similar to the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

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

Major revenues recorded on the modified accrual basis are:

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

Other Locally Levied Taxes - King County also acts as the City's collection agent for the $\frac{1}{4}\%$ and optional $\frac{1}{4}\%$ real estate excise taxes. Although a time lag occurs in payment of these taxes to the City, since the taxes are actually collected by King County in December and received to the City within 10 days after the end of the year, they are considered to be both measurable and available, and are, therefore, accrued as revenue at year end. The State of Washington acts as the City's collection agency for the locally levied sales tax. The sales tax is distributed monthly and remitted to the City in the following month. The Sales Tax remittance in January is considered both measurable and available and is therefore accrued as revenue at year-end.

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

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

Other Revenue Sources - Other items recognized as revenue in the current year on the modified accrual basis include investment interest earned but not received at year end; inter-fund, and intergovernmental service billings related to services provided in the current year which are outstanding at year end; and any other material revenue amounts determined to be both measurable and available under current modified accrual accounting practices. Revenues not considered to meet the criteria for recognition on the modified accrual basis include licenses and permits, fines and forfeitures, and other miscellaneous revenues which are generally not measurable until received.

Proprietary Funds

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

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

Other Disclosure

The City was neither the lessor nor lessee in capital leases; did not capitalize interest on qualifying assets for business-type activities; has not been the recipient of an endowment; did not engage in short-term debt activity during the year; has not issued special assessment debt; does not benefit from on-behalf payment; has not pledged future revenues; has not incurred an obligation for pollution remediation; had no hedging derivatives; is not the transferor or operator in a service concession arrangement; and does not provide other post-employment benefits (OPEB), and was not the transferor or continuing government in a merger, transfer of operation, etc.

BUDGETARY INFORMATION

Scope of Budget

Annual appropriated budgets are adopted for the general, some special revenue, and debt service funds on the modified accrual basis of accounting. For governmental funds, there are no differences between the budgetary basis and generally accepted accounting principles. Budgets for debt service and capital project funds are adopted at the level of the individual debt issue or project and for fiscal periods that correspond to the lives of debt issues or projects.

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

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

General Fund	Special Revenue Funds	Debt Service Fund	Capital Project Funds
	- Street Fund	- Debt Fund	-Downtown Redevelopment
	- Arterial Street		-City Facilities
	- Utility Tax (including Prop 1)		-Parks
	- Solid Waste & Recycling		-Transportation
	- Special Contracts / Studies		-Capital Project Reserve
	- Hotel/Motel Lodging Tax		-Performing Arts & Event Center
	- Federal Way Community Center		-Surface Water Management
	- Traffic Safety		-Real Estate Excise Tax
	- Community Development Block Grant		
	-Paths & Trails		
	-Performing Arts & Event Center		

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end do not constitute expenditure or liabilities because the commitments will be re-appropriated and honored during the subsequent year.

Procedures for Adopting the Biennial Budget

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

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

Amending the Budget

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

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

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

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

ASSETS, LIABILITIES, FUND BALANCE, NET POSITION

Cash and Cash Equivalents

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

It is the City's policy to invest all cash not immediately required for disbursement. At December 31, 2017, the State Treasurer was holding \$41,310,558 in the Local Government Investment Pool. The amount is classified on the balance sheet as cash and cash equivalents in various funds. The interest on these investments is prorated to the various funds based on the average monthly balance for each 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 the 2017 were approximately \$13 million.

For purposes of the Statement of Cash Flows, the City considers all highly liquid investments with a maturity of three months or less when purchased, to be cash equivalents. At December 31, 2017, the total cash and cash equivalents were \$54,544,471. In accordance with GASB Statement 79, LGIP investments are measured at amortized cost. See (Note 5 - *Deposits and Investments*).

Investments

The City as of December 31, 2017, had \$9,574,455 in authorized investments, and was in compliance with the investment policy of the City. See (Note 5 - *Deposits and Investments*).

Receivables

Taxes receivable consists of property taxes and related interest and penalties (see Note 6 - *Property Tax*). 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 billing have not been prepared. Notes and contracts receivable consist of amounts owed on open accounts from private individuals or organizations for goods and services rendered.

Amounts Due to and from Other Funds; Interfund Loans

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either *interfund loans receivable/payable* or *advances to/from other funds*. All other outstanding balances between funds are reported as *due to/from other funds*. Any other outstanding balances between the governmental activities and business-type activities are reported in the government-wide financial statements as *internal balances*. A separate schedule of inter-fund loans receivable and payable is furnished in Note 12, *Interfund Transactions*.

Inventories and Prepays

Inventories in the governmental funds are recorded as expendable supplies held for consumption. The cost is recorded as expenditure at the time individual inventory items are purchased. Amounts remaining at year-end are immaterial and, therefore, are not reflected on the balance sheets of those funds. There were no material inventories at year-end in the Internal Service or Enterprise Funds. The City currently uses the consumption method of accounting for prepays.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City of Federal Way as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one or more years. 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. See Note 8, *Capital Assets*.

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

Cost of normal maintenance and repairs are not capitalized.

Depreciation on all capital assets is recorded as an allocated expense in the government-wide Statement of Activities and in the proprietary fund statements. Property, plant, and equipment of the primary government are depreciated using the straight line method over the following estimated useful lives:

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

Deferred Inflows of Resources

A deferred inflow of resources is an acquisition of net assets by the government that is applicable to a future reporting period. See (Note 6 – *Property Tax*) and (Note 9 – *Pension Plans*)

Compensated Absences Payable

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

Employee vacation leave is accumulated monthly at rates ranging from 12 to 27 days per year depending on term of employment. Employees may accumulate up to a maximum of 240 hours of vacation leave, except the Police Guild, who can accrue up to a maximum of 360 hours. Outstanding vacation leave is payable upon termination of employment at the following rate: City Employees up to 240 hours and Police Guild members will be paid out up to two years of their monthly vacation accrual rate.

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

Sick leave may be accumulated up to a maximum of 720 hours for regular City employees per City policy and 1,040 hours for the Police Guild, per their contract. The monthly accrual rate for City employees is 8 hours per month. Accumulated sick leave is not payable upon termination of employment. Outstanding sick leave at year-end is not accrued due to the difficulty in estimating the portion of existing balances likely to result in expenditures in future periods. Compensated Absences Payable outstanding at year-end is outlined in Note 11.

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. See (Note 9 – *Pension Plans*).

Long-Term Liabilities

In the government-wide financial statements and the proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statement of net position. See (Note 11 - *Long-Term Debt*).

Unearned Revenues

Unearned revenue is a liability account that reports amounts received in advance of providing goods or services. For detailed information, See (Note 7 – *Unearned Revenues and Receivables*).

Fund Balance Classification

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

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

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

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

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

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

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

The council can use a resolution to modify or rescind a fund balance commitment. When an expenditure is incurred for which both restricted and unrestricted resources are available, it is the City's policy to use restricted resources first. When unrestricted (committed, unassigned) resources are available, it is the City's policy to spend committed resources first, and then unassigned, in that order. The minimum fund balance established by the Reserve Policy, and passed by resolution from the City Council, states "The City shall have an operating cash flow reserve of seventeen percent of the City's General Fund operating expenditures or \$9 million. In addition, the City shall have a contingency for unanticipated cost of \$1 million to cover revenue shortfalls resulting from unexpected economic change or recessionary periods, or to provide funds in the event of major unplanned expenditures the City could face as a result of natural disasters. The policy shall also include a strategic opportunities reserve of \$2 million to provide liquidity to respond to economic opportunity that is not budgeted for that may provide a long term economic benefit to the City. In the event that any of the Contingency or Strategic Opportunities Reserve is used, such appropriation shall be repaid to the fund annually over the next three years. The purpose of the ending fund balance is to provide financial stability, cash flow for operations and the assurance that the City will be able to respond to revenue shortfalls with fiscal strength." General fund expenditures at 12/31/2017 were \$46.8 million and Unassigned General fund balance at year-ended 2017 was \$13.4 million or (29%).

Other funds that have a significant minimum fund balance policy are: Street Fund - \$0.5 million; Arterial Street Fund - \$0.1 million; Utility Tax Fund - \$2.5 million, REET Fund – one year revenue reserve; Park Equipment and Infrastructure Reserve Fund - \$1.125 million; Hotel/Motel Lodging Tax Fund - \$0.2 million; Community Center Fund - \$1.5 million; Traffic Safety

Fund - \$1.2 million; Debt Service Fund – adequate reserve in accordance with bond ordinance or minimum of one year debt service amount; Dumas Bay Centre Fund - \$1.5 million; and Surface Water Management Fund – \$0.5 million.

The Government-wide statement of net position reports \$585.8 million of net position, of which \$20.4 million is restricted by the enabling legislation, and \$523.2 is for net investment in capital assets (there are no unspent proceeds of debt).

2017 FUND BALANCE CLASSIFICATION										
Fund Balance	General Fund	Street	Utility Tax	Debt Service	Performing Arts & Event Ctr Oper.	Transportation	Performing Arts & Event Ctr	Nonmajor Gov't	Total	
<i>Nonspendable:</i>										
Court trust	\$ 221,610	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 221,610	
Prepaid insurance/debt service	30,940	-	-	-	-	-	-	-	30,940	
<i>Restricted for:</i>										
Police covert/seizure	94,452	-	-	-	-	-	-	-	94,452	
Future debt payments	-	-	-	4,106,222	-	-	-	-	4,106,222	
Special Contracts/Studies	-	-	-	-	-	-	-	608,002	608,002	
Hotel/Motel Lodging Tax	-	-	-	-	-	-	-	967,746	967,746	
Path & Trails Reserves	-	-	-	-	-	-	-	761,546	761,546	
Downtown Redevelopment	-	-	-	-	-	-	-	901,814	901,814	
City Facilities CIP	-	-	-	-	-	-	-	29,730	29,730	
Parks CIP	-	-	-	-	-	-	-	1,820,881	1,820,881	
Transportation CIP	-	-	-	-	-	6,549,073	-	-	6,549,073	
Real Estate Excise Tax	-	-	-	-	-	-	-	4,290,210	4,290,210	
Community Development Block Gr	-	-	-	-	-	-	-	29,985	29,985	
<i>Committed to:</i>										
Capital, debt, and operations	-	-	1,703,359	-	-	-	-	120,289	1,823,648	
Petty cash/advance travel	19,350	-	-	-	-	-	-	-	19,350	
Comm. Development Block Grant	-	-	-	-	-	-	-	9,889	9,889	
Proposition 1	-	-	1,281,109	-	-	-	-	-	1,281,109	
Transportation CIP	-	-	-	-	-	3,476,045	-	-	3,476,045	
Downtown Redevelopment	-	-	-	-	-	-	-	-	-	
City Facilities CIP	-	-	-	-	-	-	-	250,000	250,000	
Arterial Street	-	-	-	-	-	-	-	372,721	372,721	
Solid Waste/Recycling	-	-	-	-	-	-	-	195,581	195,581	
Federal Way Community Center	-	-	-	-	-	-	-	1,497,086	1,497,086	
Traffic Safety	-	-	-	-	-	-	-	2,578,153	2,578,153	
Snow/ice removal	-	588,269	-	-	-	-	-	-	588,269	
Parks CIP	-	-	-	-	-	-	-	276,547	276,547	
Performing Arts & Event Ctr	-	-	-	-	477	-	-	-	477	
Capital Project Reserve	-	-	-	-	-	-	-	355,610	355,610	
<i>Unassigned:</i>										
General Fund	13,380,039	-	-	-	-	-	-	-	13,380,039	
Performing Arts & Event Ctr	-	-	-	-	-	-	(8,124,951)	-	(8,124,951)	
Total Fund Balance:	\$ 13,746,391	\$ 588,269	\$ 2,984,468	\$ 4,106,222	\$ 477	\$ 10,025,118	\$ (8,124,951)	\$ 15,065,790	\$ 38,391,784	

Interfund Transactions

There are four types of transactions between funds – inter-fund loans, inter-fund services provided and used, inter-fund reimbursements, and inter-fund transfers. Interfund loans are temporary borrowings of cash which do not affect operating statements, but which may incur interest expense or expenditure to the borrowing fund. Interfund services provided and used are equivalent to buying goods or services from an outside vendor, and are accounted for by the related funds as revenues, expenditures or expenses. Interfund reimbursements are repayments to a fund for expenditures or expenses that belong to another fund. They involve only expenditure or expense accounts. The transfers are accounted for as "other financing sources and uses" and are therefore included in the operating statements (see Note 12).

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

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

The governmental funds' balance sheet includes reconciliation between *fund balance – total governmental funds and net position – governmental activities* as reported in the government-wide statement of net position. One element of the reconciliation explains that “long-term liabilities, including bonds payable, are not due and payable in the current period, and, therefore, are not reported in the funds.” The details of this \$45,133,710 difference are as follows:

Bonds Payable & Premium at beginning of year	\$ 36,055,111
Plus: Inclusion of compensated absences	2,010,898
Plus: Current year addition/reduction of principal portion of debt & premium	(3,196,940)
Plus: Net Pension Liability	9,161,880
Plus: Deferred Inflows of Resources Related to Pensions	3,318,127
Less: Deferred Outflows of Resources Related to Pensions	(2,215,366)
Net Adjustment to reduce fund balances- <i>total governmental funds to arrive at net position - governmental activities</i>	<u>\$ 45,133,710</u>

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

The governmental funds' statement of revenues, expenditure, and changes in fund balances includes reconciliation between *net changes in fund balances – total governmental funds and changes in net position of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that “Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.” The details of this \$21,863,395 difference are as follows:

Capital outlay	\$ 29,161,278
Plus: Contributed Capital	1,964,633
Less: Loss on Capital	(40,786)
Less: Sale of Land	(2,044,821)
Less: Governmental depreciation expense	(7,573,395)
Plus: Increase in investment in joint venture	<u>396,486</u>
Net adjustment to increase net changes in fund balances - <i>Total governmental funds to arrive at changes in net position of governmental activities</i>	<u>\$ 21,863,395</u>

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

Property taxes earned reported as deferred inflow of resources in the fund statements \$ 31,795

Another element of the reconciliation states that “Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the funds.” This item represents:

Compensated absences \$ 19,240

Accrual adjustment for GASB 68 pension reporting \$ 1,678,328

NOTE 3 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

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

NOTE 4 – SUPPLEMENTAL APPROPRIATIONS**Operating Budget Funds**

Appropriations established during 2017 for the City's operating budget funds are provided below. As explained in Note 1, both original and supplemental appropriations are adopted by the City Council by ordinance. Both original and final budget appropriations are shown on the accompanying financial statements. The final budget values include all adopted adjustments to original budget amounts. This table does not include transfers out or Proprietary Funds.

FUND	2017		
	ORIGINAL BUDGET	SUPPLEMENTAL APPROPRIATIONS	FINAL BUDGET
<i>General Fund</i>	\$ 47,690,320	\$ 529,964	\$ 48,220,284
<i>Special Revenue Funds:</i>			
Street Fund	4,092,471	150,677	4,243,148
Arterial Street Fund	1,515,409	438,682	1,954,091
Utility Tax Fund	2,998,943	-	2,998,943
Solid Waste/Recycling Fund	503,121	(22,000)	481,121
Special Contracts / Studies	-	-	-
Hotel/Motel Lodging Tax	224,700	-	224,700
Federal Way Community Center	2,216,850	78,105	2,294,955
Traffic Safety	2,269,463	127,885	2,397,348
Performing Arts & Event Center Oper.	937,546	258,616	1,196,162
Community Development Block Grant	1,277,546	-	1,277,546
Paths & Trails	-	-	-
<i>Subtotal Special Revenue Funds:</i>	16,036,049	1,031,965	17,068,014
<i>Debt Service Fund</i>	10,082,279	2,000	10,084,279
<i>Capital Project Funds:</i>			
Real Estate Excise Tax	-	-	-
Downtown Redevelopment	-	5,000	5,000
City Facilities	-	-	-
Parks	2,367,163	63,043	2,430,206
Transportation	20,036,000	10,524,504	30,560,504
Capital Project Reserve	-	-	-
Performing Arts & Event Center	11,278,902	1,617,925	12,896,827
<i>Subtotal Capital Project Funds:</i>	33,682,065	12,210,472	45,892,537
Total:	\$ 107,490,713	\$ 13,774,401	\$ 121,265,114

NOTE 5 – DEPOSITS AND INVESTMENTS

As required by state law, all deposits and investments of the City's funds are obligations of the U.S. Government, the Local Government Investment Pool (LGIP), bankers' acceptances, or deposits with Washington State banks and savings and loan institutions. In 2017 the City utilized all the above with the exception of bankers' acceptances as legal authorized investment instruments. The City's investment policies are described in Note 1.

Cash and Deposits

The City follows the practice of pooling cash and investments of all funds, except restricted funds and funds held with a trustee or in escrow, for investment purposes as disclosed in Note 1. At December 31, 2017, the equity in pooled cash and investments was \$65,685,869.

At year-end, the City had \$64,118,926 in cash and cash equivalents which consisted of investments with the LGIP of \$41,310,558; U.S. Treasury Agency of \$9,574,455; the City's checking account bank balance prior to outstanding checks was \$12,963,292; deposit account of \$250, petty cash and change funds, advance travel fund and investigative fund totaling \$48,760, and Court Trustee Fund of \$221,611. Cash held with an escrow agent is \$1,566,943. No deposits were uninsured or uncollateralized. Insurance coverage up to \$250,000 is through federal depository insurance and the Washington Public Deposit Protection Commission (WPDPC) covers amounts over \$250,000. Under State statute, members of WPDPC, a

multiple-financial institution collateral pool, may be assessed on a prorated basis if the pool's collateral is insufficient to cover a loss. Investments are presented on balance sheet in the basic financial statements at fair value.

In accordance with GASB Statement 79, LGIP is reported on amortized cost basis. Furthermore, the City can invest and withdraw their investments on a daily basis with a limit of one transaction per business day and minimum transaction amount of five thousand dollars. There is no maximum transaction amount, but an investment or withdrawal of ten million dollars or more, a one-day notification prior to the transfer date is requested, but not required.

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

As of December 31, 2017 the City had the following investments and maturities:

**SCHEDULE OF INVESTMENTS BY MATURITIES
AS OF DECEMBER 31, 2017**

Investment Type	Fair Value	Investment maturities		
		Less than 1 year	1 to 2 years	Greater than 3 years
State Investment Pool	\$ 41,310,558	\$ 41,310,558	\$ -	\$ -
US Treasury Stripped Principal	4,833,005	-	4,833,005	-
US Treasury Stripped Principal	4,741,450	-		4,741,450
	\$ 50,885,013	\$ 41,310,558	\$ 4,833,005	\$ 4,741,450
<u>Reconciliation of Government-Wide Statement of Net Position:</u>				
Key Bank checking account per books	\$ 12,963,292			
Key Bank deposit account	\$ 250			
Petty cash/change fund/advance travel/investigative fund	48,760			
Local Government Investment Pool	41,310,558			
US Treasury Stripped Principal	9,574,455			
Municipal Court Trust on books	221,611			
Subtotal cash, cash equivalents, and investments	64,118,926			
Cash with escrow agent	1,566,943			
Total cash and investments, Government-Wide				
Statement of Net Position	\$ 65,685,869			

Investments

Investments Measured at Amortized Cost

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

**SCHEDULE OF INVESTMENTS AT AMORTIZED COST
AS OF DECEMBER 31, 2017**

Investment Type	Weighed Average Maturity (Days)	Investments	Total
State Treasurer's Investment Pool	37 Days	\$ 41,310,558	\$ 41,310,558
		\$ 41,310,558	\$ 41,310,558

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, which are not active, or not readily observable.
- Level 3: Unobservable inputs for asset or liability.

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

SCHEDULE OF INVESTMENTS AT FAIR VALUE OF DECEMBER 31, 2017

Investment Type	12/31/2017	Quoted Prices in		
		Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
U.S. Treasury Agency	\$ 4,833,005	\$ -	\$ 4,833,005	\$ -
U.S. Treasury Agency	<u>4,741,450</u>	<u>-</u>	<u>4,741,450</u>	<u>-</u>
Total By Fair Value Level	<u><u>\$ 9,574,455</u></u>	<u><u>\$</u></u>	<u><u>\$ 9,574,455</u></u>	<u><u>\$</u></u>

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a failure of the counterparty to an investment transaction the City would not be able to recover the value of the investment of collateral securities. As of December 31, 2017, the City is not exposed to custodial credit risk as there are not investments held with a brokerage firm or counterparty.

Interest Rate Risk

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

Credit Risk

Credit risk is the risk that an issuer or other counter-party has to an investment in not fulfilling its obligations. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. State law and the City's investment policy limits the instruments in which the City may invest. The following are categories of investments authorized under the City's policy, in general order of safety and liquidity: Local Government Investment Pool (LGIP); repurchase agreements; U.S. treasury obligations; U.S. government agencies; U.S. government-sponsored corporations/instrumentalities; bankers' acceptances (secondary market domestic and foreign); commercial paper (secondary market); insured certificates of deposit (banks and savings & loans); and uninsured/collateralized certificates of deposit (banks and savings & loans).

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

The LGIP is unrated. LGIP is comparable to Securities Exchange Commission 2a-7 to minimize credit risk. U.S. Treasury Agency is rated Aaa by Moody's rating service.

Concentration of Credit Risk

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

As of December 31, 2017 City investments were 81% in LGIP and 19% in U.S. Treasury Agency.

Other Information

Below is a schedule of investments by fund type:

SCHEDULE OF INVESTMENTS BY FUND CATEGORY AND INVESTMENT TYPE AS OF DECEMBER 31, 2017			
Fund Type	SIP	Investments	Total
General Fund	\$ 7,987,443	\$ 1,851,232	\$ 9,838,675
Other Major Funds	10,863,193	2,517,738	13,380,931
Special Revenue Funds	4,703,160	1,090,041	5,793,201
Capital Projects Funds	4,480,513	1,038,438	5,518,951
Enterprise Funds	5,023,900	1,164,378	6,188,278
Internal Services Funds	8,252,349	1,912,628	10,164,977
Total:	\$ 41,310,558	\$ 9,574,455	\$ 50,885,013

NOTE 6 – PROPERTY TAXES

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

PROPERTY TAX CALENDAR

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

As described in Note 1, taxes are levied and become an enforceable lien against properties as of January 1. Annual tax billings may be paid in two equal installments, due April 30 and October 31. At December 31, 2017, the balance of property taxes receivable recorded by the City was \$260,222. Of this, \$236,675 is recorded as deferred inflow of resources, since it was not collected within the first 30 days of the end of 2017.

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

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

1. Chapter 84.55 of the State RCW was amended most recently by Initiative No. 747 (which was passed by voters on November 6, 2001), limits the total dollar amount of regular property taxes levied by the City to the amount of such taxes levied in the three most recent years multiplied by a limit factor, plus an adjustment to account for taxes on new construction, improvements and state-assessed property at the previous year's rate. As amended by Initiative No. 747, the limit factor is the lesser of 101% or 100% plus the percent change in the Implicit Price Deflator, unless a greater amount is approved by a simple majority of the voters; and
2. The Washington State Constitution limits the total regular property taxes to 1% of assessed valuation or \$10 per \$1,000 of value. If the taxes of all districts exceed this amount, each is proportionately reduced until the total is at or below the 1% limit.

For levy year received in 2017, the City's regular tax levy was \$1.13118 per \$1,000 on a 2016 assessed valuation of \$9,489,437,470 for a total regular levy of \$10,657,115.

Deferred Inflow of Resources

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

DEFERRED INFLOW OF RESOURCES AS OF DECEMBER 31, 2017		
Deferred Inflow	General	Total General Govt
Property tax	\$ 236,675	\$ 236,675
Total by Fund:	\$ 236,675	\$ 236,675

NOTE 7 – UNEARNED REVENUES AND RECEIVABLES

Unearned Revenues

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

UNEARNED REVENUES AS OF DECEMBER 31, 2017								
Unearned Revenues	General	Street	PAEC Oper.	Nonmajor Gov't	Total General Govt	Surface Water Mgmt	Dumas Bay Centre	Total Proprietary
SWM fees	-	-	-	-	-	137,174	-	137,174
Commute Trip Reduction Grant	-	70,113	-	-	70,113	-	-	-
PAEC Fees	-	-	54,253	-	54,253	-	-	-
Recreation programs / facility rentals/ other	67,731	-	-	134,013	201,744	-	226,682	226,682
Total by Fund:	\$ 67,731	\$ 70,113	\$ 54,253	\$ 134,013	\$ 326,111	\$ 137,174	\$ 226,682	\$ 363,856

Receivables & Due from Other Governments

The receivables for the fiscal year ended December 31, 2017 on the government-wide statement of net position are detailed in the following schedule.

RECEIVABLES & DUE FROM OTHER GOVERNMENTS AS OF DECEMBER 31, 2017									
Receivable	General	Street	Utility Tax	Performing Arts & Event Ctr.	Transportation	Nonmajor Gov't	Proprietary	Total	
Property tax	\$ 260,222	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 260,222	
Admissions tax	84,858	-	-	-	-	-	-	84,858	
Real Estate Excise tax	-	-	-	-	-	215,306	-	215,306	
Utility tax	-	-	1,252,762	-	-	-	-	1,252,762	
Gambling tax	29,324	-	-	-	-	-	-	29,324	
Recreation programs / facilities	30,126	-	-	208,546	-	12,169	13,214	264,056	
Grants/contributions /utility construction contract receivable	184,269	35,604	-	-	2,884,175	283,764	53,084	3,440,896	
Off Duty security & Other receivable	178,551	-	-	-	-	250,114	-	428,665	
State Shared revenue	1,638,227	88,266	1,102	-	26,355	256,454	-	2,010,404	
Surface Water Management fees	-	-	-	-	-	-	149,894	149,894	
Total by Fund:	\$ 2,405,578	\$ 123,870	\$ 1,253,863	\$ 208,546	\$ 2,910,530	\$ 1,017,807	\$ 216,192	\$ 8,136,386	

NOTE 8 – CAPITAL ASSETS

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

CAPITAL ASSETS AS OF DECEMBER 31, 2017				
Governmental Activity	Adjusted Beginning Balance 1/1/2017	Additions	Deletions	Ending Balance 12/31/2017
Capital Assets, not being depreciated:				
Land	\$281,422,489	\$774,946	\$ (2,044,823)	\$280,152,612
Construction in progress	33,303,717	29,049,389	(6,282,941)	56,070,165
Total capital assets, not being depreciated:	\$314,726,206	\$29,824,335	\$ (8,327,764)	\$336,222,777
Buildings, being depreciated:	39,992,538	-	-	39,992,538
Improvements other than buildings	26,450,524	59,954	-	26,510,478
Infrastructure	172,544,173	7,479,003	(55,599)	179,967,577
Machinery & equipment	18,640,450	1,162,700	(315,057)	19,488,093
Total capital assets, being depreciated:	257,627,685	8,701,657	(370,656)	265,958,686
Less accumulated depreciation for:				
Buildings	(18,770,799)	(2,017,050)	-	(20,787,849)
Improvements other than buildings	(16,984,068)	(1,053,714)	-	(18,037,782)
Infrastructure	(64,160,477)	(5,278,868)	14,813	(69,424,532)
Machinery & equipment	(11,575,607)	(1,628,380)	315,057	(12,888,930)
Total accumulated depreciation:	(111,490,951)	(9,978,012)	329,870	(121,139,093)
Total assets being depreciated, net	146,136,734	(1,276,355)	(40,786)	144,819,593
Governmental activities capital assets, net	\$460,862,941	\$28,547,980	(\$8,368,550)	\$481,042,371
Adjusted Beginning 1/1/2017				
Capital Assets, not being depreciated:				
Land	\$11,232,493	\$107,800	\$ -	\$11,340,293
Construction in progress	1,732,340	875,741	(1,777,264)	830,817
Total capital assets, not being depreciated:	\$12,964,833	983,541	(1,777,264)	12,171,110
Capital assets, being depreciated:				
Buildings				
Improvements other than buildings	3,913,373	3,561	-	3,916,934
Infrastructure	58,395,603	2,392,416	-	60,788,019
Machinery & equipment	175,146	23,648	-	198,794
Total capital assets, being depreciated:	66,989,469	2,419,625	-	69,409,094
Less accumulated depreciation for:				
Buildings	(3,432,292)	(189,013)	-	(3,621,305)
Improvements other than buildings	(241,564)	(39,134)	-	(280,698)
Infrastructure	(15,113,313)	(583,956)	-	(15,697,269)
Machinery & equipment	(108,505)	(6,988)	-	(115,493)
Total accumulated depreciation:	(18,895,674)	(819,091)	-	(19,714,765)
Total assets being depreciated, net	48,093,795	1,600,534	-	49,694,329
Business-Type activities capital assets, net	\$61,058,628	\$2,584,075	(\$1,777,264)	\$61,865,439

At the end of 2017, 18 projects comprise the Construction in Progress for Governmental Activities. Upon completion, the projects will be capitalized in the Government-wide statements in their appropriate categories. Construction commitments for Governmental Activities as of December 31, 2017, are as follows:

AS OF DECEMBER 31, 2017		
Governmental Activities Projects	Construction in progress	Remaining Commitment
Performing Arts & Event Center	\$ 32,642,575	\$ 321,108
Trail and pedestrian access improvements	351,283	1,085,955
Celebration Park Maintenance Building	35,201	11,938
10th Avenue SW / SW 344th St: SW Campus Drive - 21st Ave SW	318,532	-
South 356th St: SR99 - SR161	4,050,446	692,270
SR99 HOV Lanes Phase 5	14,748,647	8,580,787
SW 336th Way / SW 340th St: 26th Pl SW - Hoyt Rd	194,148	1,809,742
S 314th St: 20th Ave S - 23rd Ave S - Install New Sidewalks	163,480	11,520
Citywide Pedestrian Crossing Improvements	668,548	297,495
S 344th Way @ Weyerhaeuser Way S	281,685	-
School Zone Enhancements	351,523	99,982
21st Ave S Sidewalks	880,781	130,837
Steel Lake Park to Downtown Trail Project	864,822	325,048
21st Ave S Pedestrian Connection Project	228,416	2,579,317
Adaptive Traffic Control System Project Ph I	30,532	1,839,920
City Center Access Ph I Project	168,709	2,331,291
Street Light LED Conversion Project	2,167	3,247,833
Military Rd & S 298th St Compacted Roundabout Project	88,670	75,964
Total Governmental Activities	\$ 56,070,165	\$ 23,441,007

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

CAPITAL ASSETS DEPRECIATION BY TYPE AS OF DECEMBER 31, 2017	
Governmental and Internal Service Activities	
General Government	\$164,730
Security of Persons & Property	1,414,616
Transportation	5,597,056
Physical Environment	15,980
Economic Environment	157,400
Health	64,547
Culture & Recreation	2,563,684
Total Depreciation - Governmental Activities	\$9,978,012
Business-Type Activities	
Utilities - Surface Water Management	\$664,192
Culture & Recreation - Dumas Bay Centre	154,899
Total Depreciation - Business-Type Activities	\$ 819,091

NOTE 9 – PENSION PLANS

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

Aggregate Pension Amounts – All Plans	
Pension liabilities	(\$10,543,761)
Pension assets	\$6,032,380
Deferred outflows of resources	\$2,442,267
Deferred inflows of resources	(\$3,545,208)
Pension expense/expenditures	\$1,363,313

State Sponsored Pension Plans

Substantially all City of Federal Way 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

downloaded from the DRS website at www.drs.wa.gov.

Public Employees' Retirement System (PERS)

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

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

Contributions

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

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

* For employees participating in Judicial Benefit Multiplier (JBM), the contribution rate was 12.26%.

The City of Federal Way's actual PERS plan contributions were \$745,500 to PERS Plan 1 for the year ended December 31, 2017.

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

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

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

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

Contributions

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

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

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

The City of Federal Way's actual PERS plan contributions were \$1,034,441 to PERS Plan 2/3 for the year ended December 31, 2017.

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

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

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

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

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

Contributions

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

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

Contributions

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

LEOFF Plan 2		
Actual Contribution Rates	Employer	Employee
January – June 2017:		
State and local governments	5.05%	8.41%
Administrative Fee	0.18%	
Total	5.23%	8.41%
Ports and Universities	8.41%	8.41%
Administrative Fee	0.18%	
Total	8.59%	8.41%
July – December 2017:		
State and local governments	5.25%	8.75%
Administrative Fee	0.18%	
Total	5.43%	8.75%
Ports and Universities	8.75%	8.75%
Administrative Fee	0.18%	
Total	8.93%	8.75%

The City of Federal Way's actual contributions to the plan were \$688,577 for the year ended December 31, 2017.

The Legislature, by means of a special funding arrangement, appropriates money from the state General Fund to supplement the current service liability and fund the prior service costs of Plan 2 in accordance with the recommendations of the Pension Funding Council and the LEOFF Plan 2 Retirement Board. This special funding situation is not mandated by the state constitution and could be changed by statute. For the state fiscal year ending June 30, 2017, the state contributed \$62,155,262 to LEOFF Plan 2. The amount recognized by the City of Federal Way as its proportionate share of this amount is \$445,467.

Actuarial Assumptions

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

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

- **Inflation:** 3% total economic inflation; 3.75% salary inflation
- **Salary increases:** In addition to the base 3.75% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- **Investment rate of return:** 7.5%

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

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

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

Discount Rate

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

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

was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.5 percent was used to determine the total liability.

Long-Term Expected Rate of Return

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

Estimated Rates of Return by Asset Class

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

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

Sensitivity of the Net Pension Liability/(Asset)

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

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
PERS 1	\$6,621,289	\$5,435,344	\$4,408,063
PERS 2/3	\$13,762,607	\$5,108,417	(\$1,982,410)
LEOFF 2	\$1,305,398	(\$6,032,380)	(\$12,010,895)

Pension Plan Fiduciary Net Position

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

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

At June 30, 2017, the City of Federal Way's reported a total pension liability of \$10,543,761 total pension net asset of \$6,032,380 for its proportionate share of the net pension liabilities and net pension asset as follows:

	Liability (or Asset)
PERS 1	\$5,435,344
PERS 2/3	\$5,108,417
LEOFF 2	(\$6,032,380)

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

	Liability (or Asset)
LEOFF 2 – employer's proportionate share	(\$6,032,380)
LEOFF 2 – State's proportionate share of the net pension liability/(asset) associated with the employer	(\$3,913,092)
TOTAL	(\$9,945,473)

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

	Proportionate Share 6/30/16	Proportionate Share 6/30/17	Change in Proportion
PERS 1	0.114008%	0.114547%	0.000539%
PERS 2/3	0.146079%	0.147025%	0.000946%
LEOFF 2	0.415772%	0.434711%	0.018939%

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

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

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

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

Pension Expense

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

	Pension Expense
PERS 1	\$361,396
PERS 2/3	\$822,621
LEOFF 2	\$179,295
TOTAL	\$1,363,313

Deferred Outflows of Resources and Deferred Inflows of Resources

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

PERS 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$0	\$0
Net difference between projected and actual investment earnings on pension plan investments	\$0	\$202,832
Changes of assumptions	\$0	\$0
Changes in proportion and differences between contributions and proportionate share of contributions	\$0	\$0
Contributions subsequent to the measurement date	\$386,759	\$0
TOTAL	\$386,759	\$202,832

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$517,603	\$168,007
Net difference between projected and actual investment earnings on pension plan investments	\$0	\$1,361,781
Changes of assumptions	\$54,261	\$0
Changes in proportion and differences between contributions and proportionate share of contributions	\$226,116	\$0
Contributions subsequent to the measurement date	\$568,294	\$0
TOTAL	\$1,366,274	\$1,529,788

LEOFF 2	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$265,135	\$228,758
Net difference between projected and actual investment earnings on pension plan investments	\$0	\$1,354,312
Changes of assumptions	\$7,264	\$0
Changes in proportion and differences between contributions and proportionate share of contributions	\$65,133	\$229,518
Contributions subsequent to the measurement date	\$351,702	\$0
TOTAL	\$689,234	\$1,812,588

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

Year ended December 31:	PERS 1
2018	(\$137,101)
2019	\$43,285
2020	(\$10,050)
2021	(\$98,965)
2022	\$0
Thereafter	\$0
TOTAL	(\$202,832)

Year ended December 31:	PERS 2/3
2018	(\$417,092)
2019	\$215,935
2020	(\$107,031)
2021	(\$542,185)
2022	\$51,550
Thereafter	\$67,015
TOTAL	(\$731,808)

Year ended December 31:	LEOFF 2
2018	(\$650,125)
2019	\$112,950
2020	(\$120,907)
2021	(\$596,221)
2022	(\$39,420)
Thereafter	(\$181,332)
TOTAL	(\$1,475,055)

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

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

During 2017 on average, there were a total of 325 individuals covered by this system. As of the end of the year, there were 321 active employees of the City and five were drawing retirement benefits. During the year 37 employees left the City's employment and either had been reimbursed their contributions, reimbursement was pending, or they elected to have their contributions remain in the plan if the balance was \$1,000 or greater.

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

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

Covered payroll for 2017 was \$28,499,903 and excluding PERS, LEOFF, FWRS, deferred comp, flex plan, and section 125 covered payroll was \$25,383,187. Total City payroll was \$30,370,526. Actual City contributions for the year were \$1,440,976. Actual employee contributions were \$1,718,088. All contributions were invested in instruments arranged through independent investment advisors selected by the Municipal Employers Benefit Trust (MEBT) committee comprised of the entities of Bellevue, Kirkland, Redmond, Edmonds, Mill Creek, Woodinville, Federal Way, and North East King County Regional Public Safety Communication Agency (NORCOM) but administered by Northwest Plan Services (NWPS). Retirement System assets are not the property of the City and are not subject to the claims of the City's general creditors. The Federal Way Retirement System assets are with Security Trust Company, N.A. who invests Plan assets. MEBT can be contacted for additional information at (877)-690-5410.

In July 1995, the City implemented the hardship withdrawal and loan provision program that allow participants to have limited access to their contributions while still employed by the City. Hardship withdrawals are available in the event of financial necessity resulting from uninsured medical expenses, tuition expenses, purchasing one's primary residence, or to prevent foreclosure on one's primary residence. Loans receivable as of December 31, 2017 were \$1,440,432. After 5 years an employee becomes 100% vested in their employer contributions. Also an employee becomes 100% vested when they reach their normal retirement date (the earlier of age 65 or the earliest service retirement date under any other retirement benefit program to which the City contributes on the employee's behalf).

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

NOTE 10 – RISK MANAGEMENT

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

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

There were no settlements in excess of insurance for commercially insured activities for 1996 through 2017. The fund balance for the Risk Fund as of 12/31/2017 is \$1.57 million.

The following is a summary of coverage in force in 2017.

SCHEDULE OF INSURANCE IN FORCE AS OF DECEMBER 31, 2017				
Company	Policy Period	Details of Coverage	Liability Limits	
Argonaut	12/31/16-12/31/17	General liability (auto, general, police, e & o, employment practices, & stop gap)	\$250,000 self-insured retention (SIR) with aggregate limits of \$10,000,000.	
National Casualty	12/31/16-12/31/17	Excess liability	\$10,000,000 in excess of \$10,000,000 with aggregate limits of \$10,000,000.	
Travelers	1/1/17-1/1/18	Crime/fidelity (employee theft, forgery or alteration, on premises, in transit, money orders and counterfeit money, computer crime, fund transfer fraud and claims expense)	Deductible ranges from \$5,000 to \$25,000 with single loss limits ranging from \$50,000 to \$1,000,000.	
Philadelphia	1/1/17-1/1/18	Property coverage	\$25,000 deductible with single loss limits of \$41,923,909 for buildings and \$4,401,565 in contents.	

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

NOTE 11 – LONG-TERM LIABILITIES

The various categories of long-term debt reflected on the City's financial statements are briefly described in the following paragraphs. Ratings are issued on the bond at the time of issuance. The ratings issued on City bonds are shown on page 66.

General obligation bonds are backed by the City's full faith and credit. Proceeds are typically used for the acquisition or construction of major capital facilities or equipment. "Councilmanic Bonds" are general obligation bonds issued by City Council without voter approval. Under State law, repayment of these bonds must be financed from general City revenues because no additional property taxes can be levied to support related debt service payments. General Obligation bonds approved by the voters are typically repaid through an annual "excess" property tax levy authorized for this purpose by State statute. At year-end 2017 the City had no voter-approved bonds outstanding. All principal and interest payments on general obligation debts are recorded as expenditures by the City's Debt Service Fund.

- A) On November 17, 2017, the City issued \$6,000,000 of limited tax general obligation bond with an interest rate of 2.17 percent, maturity due date of 11/27/2037 which contains mandatory tender option date of 11/17/2022. Proceeds were used to pay off the 2014 KeyBank Bond Anticipation Note which was scheduled for maturity on 12/01/2017.
- B) On November 26, 2014 the City issued \$8,209,906 of general obligation Bond anticipation note with KeyBank to acquire the Target property with an interest only rate of 1.51 percent and principal due 12/01/2017. The funds were used to purchase the old Target property for downtown development. The bond was partially paid down on 10/13/2017 for \$2,209,906 with partial sale of the land on August 7, 2017. The bond was paid in full on 11/17/2017.
- C) On March 4, 2013 the City issued \$12,415,000 of general obligation refunding bonds with an average interest rate of 2.67 percent to provide resources to purchase U.S. Government and State and Local Government Series security that were placed in an irrevocable trust for the purpose of generating resources to advance refund on \$12,310,000 of outstanding 2003 GO Federal Way Community Center debt on December 1, 2013. As a result the 2003 GO FWCC bonds are considered to be defeased and the liability has been removed from the governmental activities column of the statement of net position. This advance refunding was undertaken to reduce total debt service payments over the next twenty one years by \$2,322,943 and resulted in an economic gain of \$1,740,458. (Economic gain is the net present value of future savings between old and the new debt).
- D) On June 28, 2016 the City entered into a Contract Loan Guarantee with Housing Urban Development for development of the Federal Way Performing Arts and Events Center. This loan, referred to as Section 108 Loan is authorized up to \$3,030,000 with advances of \$3,030,000 as of 12/31/2017 with a variable rate of 3M LIBOR plus 20 basis points. The Section 108 Loan contains a 20 year term with provisions to convert to a fixed rate loan at a future date.
- E) The City in conjunction with several other South King County cities (Auburn, Burien, Renton, SeaTac, Tukwila,) agreed to build a facility to hold its inmates. The total bond in 2009 was \$86.325 million and the City of Federal

Way's portion at that time was \$15.522 million. In 2017 the facility was able to use its excess revenue from excess space rented to non-member cities to pay the bond in 2017.

SCORE and Valley Communications joint venture information can be found on pages 73 thru 76.

The following schedules detail the long-term debt activity and balances of the City for GO Bonds, SCORE and Section 108 HUD Loan, Public Works Trust Fund Loans, Compensated Absences, and Net Pension Liability. Typically we have used the governmental funds on pages 29 and 30 to liquidate the net pension liability, with the General Fund being the primary fund.

OUTSTANDING GENERAL OBLIGATION DEBT AND LONG-TERM LIABILITIES - BY TYPE DECEMBER 31, 2017										
Description	Bond Rating at Issuance	Issue Date	Maturity Date	Interest Rate	Amount Originally Issued	Beginning Outstanding Debt	Amount Issued	Amount Redeemed	Ending Outstanding Debt	
Governmental Activities :										
<i>General Obligation Bonds:</i>										
A) 2017 Ltd Tax GO Bond ¹		- Nov 17, 17	Nov 27, 37	2.17	\$ -	\$ -	\$ 6,000,000	\$ -	\$ 6,000,000	
B) 2014 KeyBank Bond Anticipation Note ¹		- Nov 26, 14	Dec 01, 17	1.51	8,209,960	8,209,960	-	8,209,960	-	
C) 2013 Refund Ltd/Community Center ²	Aa3	Dec 01, 13	Dec 01, 33	2.67	12,415,000	10,880,000	-	485,000	10,395,000	
Subtotal GO Bonds :		-	-	-	20,624,960	19,089,960	6,000,000	8,694,960	16,395,000	
<i>Other Miscellaneous Debt-Intergovernmental:</i>										
D) 2016 Section 108 HUD Loan ³		Aug 01, 16	Aug 01, 35	1.14	2,925,000	2,925,000	105,000	159,000	2,871,000	
E) 2009 SCORE/Special Obligation Bond ⁴	A1/AA	Nov 04, 09	Jan 01, 39	3.00-6.62	15,522,300	13,710,600	-	403,200	13,307,400	
Subtotal miscellaneous :		-	-	-	18,447,300	16,635,600	105,000	562,200	16,178,400	
Subtotal GO Bonds plus Misc.					39,072,260	35,725,560	6,105,000	9,257,160	32,573,400	
Compensated absences		-	-	-	-	2,032,808	2,080,522	2,102,432	2,010,898	
Net Pension Liability (NPL) for Pers 1,2, & 3		-	-	-	-	11,893,469	-	2,731,589	9,161,880	
Subtotal GO bonds, misc., comp. absences, & NPL		-	-	-	39,072,260	49,651,837	8,185,522	14,091,181	43,746,178	
Business-Type Activities :										
<i>Public Work's Trust Fund Loan (PWTFL):</i>										
PWTFL - SeaTac Mall Drain Imp		- May 31, 00	Jul 01, 19	1.00	412,500	48,060	-	16,020	32,040	
PWTFL - SeaTac Mall Drain Imp		- Aug 14, 00	Jul 01, 19	1.00	2,062,500	240,301	-	80,100	160,201	
Subtotal PWTFL		-	-	-	2,475,000	288,361	-	96,120	192,241	
Compensated absences		-	-	-	-	90,128	110,168	99,458	100,838	
Net Pension Liability (NPL) for Pers 1,2, & 3		-	-	-	-	1,584,261	-	202,380	1,381,881	
Subtotal PWTFL, comp. absences, & NPL:		-	-	-	2,475,000	1,962,750	110,168	397,958	1,674,960	
Grand Total All Long-Term Debt:		-	-	-	\$ 41,547,260	\$ 51,614,587	\$ 8,295,690	\$ 14,489,139	\$ 45,421,138	

¹ On November 17, 2017 the City issued \$6,000,000 of Ltd Tax GO Bond with an interest rate of 2.17 percent, maturity date of 11/27/2037, mandatory tender option date of 11/17/2022. Bond proceeds were used to pay off the 2014 KeyBank Bond Anticipation Note. ² The ending 2017 refunding Community bond premium is \$284,771 with current year amortization of \$44,780. ³ Contract Loan Guarantee Assistance via Housing Urban Development with variable rate; 3 month libor plus 20 basis points. ⁴ Currently the City has an inter-local agreement with Des Moines where they contribute 1% to the City of Federal Way SCORE Debt.

SCHEDULE OF CHANGES IN LONG-TERM LIABILITIES PERIOD ENDED DECEMBER 31, 2017					
	Beginning Outstanding Debt	Additions	Reductions	Ending Outstanding Debt	
Governmental Activities:					
General Obligation Bonds	\$ 19,089,960	\$ 6,000,000	\$ (8,694,960)	\$ 16,395,000	
Other-intergovernmental debt	16,635,600	105,000	(562,200)	16,178,400	
Compensated absences	2,032,808	2,080,522	(2,102,432)	2,010,898	
Net Pension Liability (NPL) for Pers 1,2, & 3	11,893,469	-	(2,731,589)	9,161,880	
Total Governmental Activities	49,651,837	8,185,522	(14,091,181)	43,746,178	
Business-Type Activities:					
<i>Enterprise Funds</i>					
Public Works Trust Fund Loan	288,361	-	(96,120)	192,241	
Compensated absences	90,128	110,168	(99,458)	100,838	
Net Pension Liability (NPL) for Pers 1,2, & 3	1,584,261	-	(202,380)	1,381,881	
Total Business-Type Activities	1,962,750	110,168	(397,958)	1,674,960	
Total All Funds	\$ 51,614,587	\$ 8,295,690	\$ (14,489,139)	\$ 45,421,138	

OUTSTANDING GENERAL OBLIGATION DEBT AND LONG-TERM LIABILITIES - BY FUND DECEMBER 31, 2017						
Description	Amount Originally Issued	Beginning Outstanding Debt	Amount Issued	Amount Redeemed	Ending Outstanding Debt	Due within one year
Governmental Long-Term Debt:						
General Obligation Bonds:						
A) 2017 Ltd Tax GO Bond 1	\$ -	\$ -	\$ 6,000,000	\$ -	\$ 6,000,000	\$ -
B) 2014 KeyBank Bond Anticipation Note 1	8,209,960	8,209,960	-	8,209,960	-	-
C) 2013 Refund Ltd/Community Center 2	12,415,000	10,880,000	-	485,000	10,395,000	500,000
Subtotal GO Bonds:	20,624,960	19,089,960	6,000,000	8,694,960	16,395,000	500,000
Other Miscellaneous Debt-Intergovernmental:						
D) 2016 Section 108 HUD Loan3	2,925,000	2,925,000	105,000	159,000	2,871,000	159,000
E) 2009 SCORE/Special Obligation Bond4	15,522,300	13,710,600	-	403,200	13,307,400	415,800
Subtotal miscellaneous:	18,447,300	16,635,600	105,000	562,200	16,178,400	574,800
Subtotal GO Bonds plus Misc.	39,072,260	35,725,560	6,105,000	9,257,160	32,573,400	1,074,800
Compensated absences	-	2,032,808	2,080,522	2,102,432	2,010,898	136,529
Net Pension Liability (NPL) for Pers 1,2, & 3	-	11,893,469	-	2,731,589	9,161,880	na
Subtotal GO bonds, misc., comp. absences, & NPL:	39,072,260	49,651,837	8,185,522	14,091,181	43,746,178	1,211,329
Business-Type Activities:						
<i>Enterprise Funds:</i>						
Public Works Trust Fund Loan	2,475,000	288,361	-	96,120	192,241	96,120
Subtotal Bus-Type Long-Term Debt	2,475,000	288,361	-	96,120	192,241	96,120
Compensated absences	-	90,128	110,168	99,458	100,838	7,159
Net Pension Liability (NPL) for Pers 1,2, & 3	-	1,584,261	-	202,380	1,381,881	na
Subtotal PWTFL, comp. absences, & NPL:	2,475,000	1,962,750	110,168	397,958	1,674,960	103,279
Grant Total All Long-Term Debt:	\$ 41,547,260	\$ 51,614,587	\$ 8,295,690	\$ 14,489,139	\$ 45,421,138	\$ 1,314,608

SCHEDULE OF DEBT SERVICE REQUIREMENTS TO MATURITY AS OF DECEMBER 31, 2017							
Year	Government Activities		Business-Type Activities		Grand Total		
	General Governmental Debt Principal	Interest	Public Work Trust Fund Principal	Interest	Principal	Interest	P&I
2018	\$ 1,074,800	\$ 1,079,024	\$ 96,120	\$ 1,922	\$ 1,170,920	\$ 1,080,946	\$ 2,251,866
2019	1,295,747	1,019,871	96,120	961	1,391,867	1,020,832	2,412,699
2020	1,523,881	981,262	-	-	1,523,881	981,262	2,505,143
2021	1,574,916	931,453	-	-	1,574,916	931,453	2,506,369
2022	6,233,956	876,620	-	-	6,233,956	876,620	7,110,576
2023	1,259,400	730,077	-	-	1,259,400	730,077	1,989,477
2024-2028	6,893,500	3,055,710	-	-	6,893,500	3,055,710	9,949,210
2029-2033	9,063,400	2,012,999	-	-	9,063,400	2,012,999	11,076,399
2034-2038	3,653,800	385,338	-	-	3,653,800	385,338	4,039,138
Total	\$ 32,573,400	\$ 11,072,354	\$ 192,240	\$ 2,883	\$ 32,765,640	\$ 11,075,237	\$ 43,840,877

Computation of Legal Debt Margin

Under Washington State law (RCW 39.36.020), a City may incur general obligation debt for general city purposes in an amount not to exceed 2½ percent of the value of all taxable property within the City. State law requires all property to be assessed at 100 percent of its true and fair value. Unlimited tax general obligation debt requires an approving vote of the people, and any election to validate such general obligation debt must have a voter turnout of at least 40 percent of those who voted in the last State general election and of those voting; 60 percent must be in the affirmative. The City Council may, by ordinance, authorize the issuance of limited tax general obligation debt in an amount up to 1.5% of the valuation within the City without a vote of the people. No combination of limited or unlimited tax debt may exceed 7½ percent of the valuation. The debt service on unlimited tax debt is secured by excess property tax levies, whereas the debt service on limited tax debt is secured by property taxes collected with the City's councilmanic levy. See page 132 for a detailed calculation of the valuation.

The City's legally remaining debt capacities as of December 31, 2017 are:

Computation of Limitation of Indebtedness	2017
General government (no vote required)	\$ 124,321,295
General government (3/5 majority vote required)	102,268,064
Parks and open space (3/5 majority vote required)	255,670,161
Utilities (3/5 majority vote required)	255,670,161
Total Capacity	\$ 737,929,681

Compensated Absences

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

Governmental Activities:		
Current portion	\$ 136,529	
Noncurrent portion	1,874,369	
Business-Type Activities:		
Current portion	7,159	
Noncurrent portion	93,679	
Total Compensated absences		\$ 2,111,736

Estimated Arbitrage Rebate

The Federal Tax Reform Act of 1986 requires issuers of tax-exempt debt of over \$5 million to make payments to the United States Treasury of investment interest received at yields that exceed the issuer's tax-exempt borrowing rates. Payments of arbitrage rebate amounts due under these regulations must be made to the U.S. Treasury every five years. The City's estimated rebatable arbitrage amount as of December 31, 2017 is \$0- for its tax-exempt general obligation bond issues subject to the Tax Reform Act issued through that date. No arbitrage applies to any of City of Federal Way bonds.

NOTE 12 – INTERFUND TRANSACTIONS

Interfund transfers for the year ended December 31, 2017 were as follows:

Interfund Transfers	In	Out
Governmental Funds :		
General Fund	\$ 9,631,425	\$ 2,798,139
Street Fund	1,714,542	-
Utility Tax Fund	-	10,256,148
Debt Service	2,937,023	-
Performing Arts & Event Center Operations	694,703	-
Transportation	3,993,000	-
Performing Arts & Event Center	500,000	-
Nonmajor Governmental Funds	2,135,966	9,207,847
Proprietary Funds :		
Dumas Bay Centre	942,000	-
Internal Service Funds	713,475	1,000,000
Total: \$ 23,262,134		\$ 23,262,134

The following describes the amounts transferred out during 2017:

General Fund:

- \$1,628,766 to Street Fund to subsidize street maintenance and operations.
- \$114,000 to Performing Art & Event Center to subsidize operations.
- \$120,289 to Parks Reserve for reserve fund balance.
- \$11,084 to Federal Way Community Center to subsidize maintenance and operations.
- \$924,000 to Debt Service for future debt service payments.

Utility Tax Fund:

- \$7,480,745 to General Fund for operation support.
- \$441,593 to Federal Way Community Center for maintenance and operations.
- \$85,776 to Street Fund for maintenance and operations of City streets.
- \$475,331 to Building & Furnishings Fund for future capital needs of city buildings.
- \$250,000 to Municipal Facilities Fund for capital projects reserve.
- \$442,000 to Dumas Bay Center to subsidize maintenance and operations and establish a reserve for future capital needs of the building.
- \$580,703 to Performing Art & Event Center for maintenance and operations of operating the facility.

- \$500,000 to Performing Art & Event Center for construction of the facility.

Nonmajor Funds:

- \$1,021,298 from Traffic Safety Fund to General Fund for Police related services.
- \$205,000 from Traffic Safety Fund to Street Construction Project School Zone Enhancements.
- \$2,013,023 from Real Estate Excise Tax (REET) Fund to Debt Service Fund for debt payments.
- \$1,013,000 from REET Fund to Arterial Street for street overlay.
- \$100,000 from REET Fund to Parks CIP Fund for major maintenance of parks facilities.
- \$100,000 from REET Fund to Parks CIP Fund for playground equipment.
- \$50,000 from REET Fund to Parks CIP Fund for trail and pedestrian access improvements.
- \$50,000 from REET Fund to Parks CIP Fund for Lakota Soccer Field upgrade project.
- \$632,542 from REET Fund to Street Construction Project S 356th St SR99 to SR161.
- \$867,458 from REET Fund to Street Construction Project SW 336th Way/SW 340th St from 26th Pl SW to Hoyt Rd.
- \$113,000 from REET Fund to Street Construction Project Steel Lake Park to Downtown Trail.
- \$500,000 from REET Fund to Dumas Bay Center Fund for reserve.
- \$109,338 from REET Fund to Information Technology Fund for PAEC IT related expenditures.
- \$128,806 from Parks Reserve Fund to Fleet Fund for Parks Sand & Equipment.
- \$2,000,000 from Downtown Redevelopment Fund-LIFT to Street Construction Project 21st Ave S Pedestrian Connection (Staircase)
- \$175,000 from Downtown Redevelopment Fund-LIFT to Street Construction Project 21st Ave S Sidewalks.
- \$129,382 from Capital Project Reserve Fund to General Fund for operations.

Internal Service:

- \$1,000,000 from Unemployment Insurance Fund to General Fund for operations.

Interfund loans for the year ended December 31, 2017 were as follows:

Interfund Loans	Receivable	Payable
General Fund	\$ 2,237,068	\$ -
Special Revenue Funds:		
Community Development Block Grant	-	14,749
Capital Project Funds:		
Performing Arts & Event Center	-	7,393,338
Internal Service Funds:		
Fleet & Equipment Fund	5,171,019	-
Total Interfund Loans		\$ 7,408,087
\$ 7,408,087		

NOTE 13 – CONTRACTUAL OBLIGATIONS, CONTINGENCIES AND LITIGATION

As of December 31, 2017 there were several minor claims for damages and three lawsuits pending against the City. With one exception noted below, in the opinion of the City Attorney, none of these lawsuits or claims exposes the City to potential liability, either singly or in the aggregate, that materially affect the financial condition of the City. The one exception to this statement is a claim for \$10,777,440.22 filed by a contractor, Graham Construction, Inc., in relation to Phase 5 of the Pacific Highway improvement project. While the City disputes this claimed amount and is vigorously defending the City's position, it is possible that the liability for the City may exceed the original contract budget by a significant amount.

NOTE 14 – JOINT VENTURES

Valley Communication Center

The “Valley Communications Center” was established August 20, 1976, when an Interlocal Agreement was entered into by the four original participating municipal corporations, including the cities of Renton, Kent, Auburn, and Tukwila. Federal Way was formally admitted as an addition in 2000. The agreement is sanctioned by the provisions and terms of the Interlocal Cooperation Act pursuant to RCW 39.34. The initial duration of the agreement was five years, and thereafter was automatically extended for a consecutive five year-period.

The purpose of the joint operation, hereafter referred to as Valley Com, is to provide improved consolidated emergency communications (dispatch) services for police, fire, and medical aid, to the five participating cities and to several subscribing agencies, which include King County Fire Districts 2, 20, 26, 40, 43, 44, and 47; City of Pacific Police and Fire Departments, City of Algona Police Department, City of Des Moines Police Department, City of Black Diamond Police and Fire

Department; SeaTac Fire Department; North Highline Fire Department; King County EMS Units; and Vashon Island Fire Department. Separate agreements between Valley Com and the subscribing agencies have been executed, which set forth conditions of services and rates charged.

The allocation of prorated financial participation among the five member cities is the percentage of dispatched calls attributed to each jurisdiction compared to the total estimated dispatched calls, for the current twelve month period ending December 31. The percentages are applied to the current approved budget, less revenue from all other sources. Distribution of the current year net income is based on the same percentages. The 2017 cost distributions for the five member cities are as follows:

City	Dispatchable	Percent
	Calls	of Total
Kent	115,303	26.55%
Renton	87,220	20.09%
Auburn	100,554	23.16%
Tukwila	36,635	8.44%
Federal Way	94,522	21.77%
Total	434,234	100.00%

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

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

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

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

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

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

Balances in 2017						
	Kent	Renton	Auburn	Tukwila	Federal Way	Total
Equity @ January 1, 2017	\$ 6,314,604	\$ 4,531,544	\$ 4,504,828	\$ 2,391,872	\$ 3,484,567	\$ 21,227,415
Prior period adjustment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Current year increase	900,497	681,177	785,310	286,111	738,204	3,391,299
Equity @ December 31, 2017	\$ 7,215,101	\$ 5,212,721	\$ 5,290,138	\$ 2,677,983	\$ 4,222,771	\$ 24,618,714
Percent of equity	29.31%	21.17%	21.49%	10.88%	17.15%	100.00%
Prior year's percent of equity	29.75%	21.35%	21.22%	11.27%	16.42%	100.00%

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

South Correction Entity

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

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

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

Summary of Debt Service Requirements										
Debt Service Schedule					Debt Service Allocation to Owner Cities					
Year	Principal	Interest	35% BABs	Total	Auburn	Burien	Federal Way	Renton	SeaTac	Tukwila
2018	\$ 2,240,000	\$ 4,715,979	\$ (1,512,496)	\$ 5,443,483	\$ 1,687,480	\$ 217,739	\$ 979,827	\$ 1,959,654	\$ 163,304	\$ 435,479
2019	2,310,000	4,602,229	(1,478,317)	5,433,912	1,684,513	217,356	978,104	1,956,208	163,017	434,713
2020	2,385,000	4,484,854	(1,440,560)	5,429,294	1,683,081	217,172	977,273	1,954,546	162,879	434,344
2021	2,465,000	4,363,604	(1,401,577)	5,427,027	1,682,378	217,081	976,865	1,953,730	162,811	434,162
2022	2,590,000	4,233,250	(1,500,618)	5,322,632	1,650,016	212,905	958,074	1,916,148	159,679	425,811
2023-2027	14,485,000	18,727,798	(6,710,481)	26,502,317	8,215,718	1,060,093	4,770,417	9,540,834	795,070	2,120,185
2028-2032	17,725,000	13,590,870	(4,959,695)	26,356,175	8,170,414	1,054,247	4,744,112	9,488,223	790,685	2,108,494
2033-2037	21,855,000	7,082,263	(2,731,829)	26,205,434	8,123,685	1,048,217	4,716,978	9,433,956	786,163	2,096,435
2038-2039	10,115,000	676,321	(353,824)	10,437,497	3,235,624	417,500	1,878,749	3,757,499	313,125	835,000
Total	\$ 76,170,000	\$62,477,168	(\$22,089,397)	\$ 116,557,771	\$ 36,132,909	\$ 4,662,311	\$ 20,980,400	\$ 41,960,798	\$ 3,496,733	\$ 9,324,622

*Of the \$20,980,400 allocation to Federal Way, \$13,710,600 is for the principal portion and the remainder is for interest.

The City of Federal Way reports its share of equity interest in the Governmental Activities column within the Government- wide financial statements under non-current assets. The following is condensed (unaudited) financial information as of December 31, 2017 related to SCORE:

South Correction Entity (SCORE) 2017 Owner Cities Equity Allocation					
Member City	Percent of Equity	2016 Equity Balance	2016 Apportionment	2017 Equity Balance	
Auburn	31.00%	\$ 3,115,334	\$ 32,413	\$ 3,147,747	
Burien	3.10%	324,602	22,263	346,865	
Des Moines	1.80%	166,583	(3,248)	163,335	
Federal Way	23.30%	2,292,265	61,482	2,353,747	
Renton	29.20%	2,941,503	74,665	3,016,168	
SeaTac	4.50%	434,029	22,947	456,976	
Tukwila	7.10%	703,323	16,099	719,422	
Total	100.00%	\$ 9,977,639	\$ 226,621	\$ 10,204,260	

Completed financial statements for SCORE and SCORE PDA can be obtained at SCORE, Attn: Finance Manager, 20817 17th Avenue South, Des Moines, WA 98198.

Joint Venture Reconciliation to Government Wide Financial Statements

	Balance 1/1/2017	Additions	Reductions	Balance 12/31/2017
Valley Communications Public Development Authority	\$ -	\$ -	\$ -	\$ -
SCORE Public Development Authority	13,710,600	-	(403,200)	13,307,400
Total Due to Other Governmental Units	13,710,600	-	(403,200)	13,307,400
Valley Communications Center	3,484,567	738,204	-	4,222,771
South Correctional Entity (SCORE)	2,292,265	61,482	-	2,353,747
Total Joint Venture Capital Assets	5,776,832	799,686	-	6,576,518
Total Investment in Joint Ventures	\$ 19,487,432	\$ 799,686	\$ (403,200)	\$ 19,883,918

NOTE 15 – PRIOR PERIOD ADJUSTMENTS

Governmental-type capital asset activity prior period adjustment of \$2.3M is for **Construction in progress** that was incorrectly classified and should have been classified as business-type in the amount of \$1.7M and repairs and maintenance expenditure in the amount of \$0.6M.

Governmental Activity	Beg. Bal. 1/1/2017	Prior Period Adjustment	Adj. Beg. Balance	Additions	Deletions	Ending Bal. 12/31/2017
Capital assets, not being depreciated:						
Land	\$ 281,422,489	\$ -	\$ 281,422,489	\$ 774,946	\$ (2,044,823)	\$ 280,152,612
Construction in progress	35,600,490	(2,296,773)	33,303,717	29,049,389	(6,282,941)	56,070,165
Total capital assets, not being depreciated:	317,022,979	(2,296,773)	314,726,206	29,824,335	(8,327,764)	336,222,777
Capital assets, being depreciated						
Buildings	39,992,538	-	39,992,538	-	-	39,992,538
Improvements other than buildings	26,450,524	-	26,450,524	59,954	-	26,510,478
Infras tructure	172,544,173	-	172,544,173	7,479,003	(55,599)	179,967,577
Machinery and equipment	18,640,450	-	18,640,450	1,162,700	(315,056)	19,488,093
Total capital assets, being depreciated:	257,627,685	-	257,627,685	8,701,657	(370,655)	265,958,686
Less accumulated depreciation for :						
Buildings	(18,770,799)	-	(18,770,799)	(2,017,050)	-	(20,787,849)
Improvements other than buildings	(16,984,068)	-	(16,984,068)	(1,053,714)	-	(18,037,782)
Infras tructure	(64,160,477)	-	(64,160,477)	(5,278,868)	14,813	(69,424,532)
Machinery and equipment	(11,575,607)	-	(11,575,607)	(1,628,380)	315,057	(12,888,930)
Total accumulated depreciation:	(111,490,951)	-	(111,490,951)	(9,978,012)	329,870	(121,139,093)
Total assets being depreciated, net	146,136,734	-	146,136,734	(1,276,355)	(40,785)	144,819,593
Governmental activities capital assets, net	\$ 463,159,714	\$ (2,296,773)	\$ 460,862,941	\$ 28,547,980	\$ (8,368,549)	\$ 481,042,371

Business-type capital asset activity prior period adjustment of \$1.7M is for **Construction in progress** that was incorrectly classified as governmental-type activity.

Business-Type Activities	Beg. Bal. 1/1/2017	Prior Period Adjustment	Adj. Beg. Balance	Additions	Deletions	Ending Bal. 12/31/2017
Capital assets, not being depreciated:						
Land	\$11,232,493	\$ -	\$11,232,493	\$107,800	\$ -	\$11,340,293
Construction in progress	21,722	1,710,618	1,732,340	875,741	(1,777,264)	830,817
Total capital assets, not being depreciated:	11,254,215	1,710,618	12,964,833	983,541	(1,777,264)	12,171,110
Capital assets, being depreciated						
Buildings	4,505,348	-	4,505,348	-	-	4,505,348
Improvements other than buildings	3,913,373	-	3,913,373	3,561	-	3,916,934
Infrastructure	58,395,603	-	58,395,603	2,392,416	-	60,788,019
Machinery and equipment	175,146	-	175,146	23,648	-	198,794
Total capital assets, being depreciated:	66,989,469	-	66,989,469	2,419,625	-	69,409,094
Less accumulated depreciation for :						
Buildings	(3,432,292)	-	(3,432,292)	(189,013)	-	(3,621,305)
Improvements other than buildings	(241,564)	-	(241,564)	(39,134)	-	(280,698)
Infrastructure	(15,113,313)	-	(15,113,313)	(583,956)	-	(15,697,269)
Machinery and equipment	(108,505)	-	(108,505)	(6,988)	-	(115,493)
Total accumulated depreciation:	(18,895,674)	-	(18,895,674)	(819,091)	-	(19,714,765)
Total assets being depreciated, net	48,093,795	-	48,093,795	1,600,534	-	49,694,329
Business Type activities capital assets, net	\$ 59,348,010	\$ 1,710,618	\$ 61,058,628	\$ 2,584,075	\$ (1,777,264)	\$ 61,865,439

NOTE 16 – LEASES

Operating Leases

Starting February 1, 2014, the City of Federal Way started leasing the office buildings for the downtown Police substation. Total cost for the leases was \$42,000 for the year ended December 31, 2017. The future minimum lease payment for the downtown Police substation lease is as follows:

Year Ending December 31, 2017	Amount
2018	42,000
Total:	\$ 42,000

NOTE 17 – SELF-INSURANCE

The City's unemployment insurance, where it has elected to become fully self-insured. Related premiums received by the Unemployment Insurance Fund is used to reimburse the State Employment Security Department for unemployment benefits paid to eligible individuals, and to establish reserves for the payment of estimated future unemployment claims liability. The City is self-insured for unemployment compensation. The weekly payments to an employee range from \$169 - \$713 depending upon the wages earned. At December 31st, 2017 the City had \$359,328 in reserve.

Unemployment compensation benefits	2016	2017
Unemployment reserve, Jan. 1st	\$ 2,131,298	\$ 1,377,809
Unemployment compensation benefits	271,127	35,413
Unemployment compensation interest	5,448	3,924
Claim payments during the year	(30,064)	(57,818)
Operating Transfer to General Fund	(1,000,000)	(1,000,000)
Unemployment reserve, Dec. 31st	\$ 1,377,809	\$ 359,328

The City's also elected to self-insure for medical. Related premiums are received by the Health Insurance Fund and are used to reimburse weekly claims to the Group Health Corporation for medical benefits paid the eligible individuals, and establish reserves for the payment of estimated future medical benefits claims liability. At December 31st, 2017 the City had \$2,550,138 in reserve.

Health Insurance benefits	2016	2017
Health Insurance reserve, Jan. 1st	\$ 1,741,487	\$ 2,020,466
Health Insurance benefits	4,069,020	4,238,581
Health Insurance Employee Contributions	217,341	216,562
Health Insurance COBRA Contributions	5,757	10,026
Health Insurance interest	7,698	13,247
Health Insurance Recovery-Stop Loss	1,072,162	306,963
Prescription Claim payments during the year	(549,408)	(461,723)
Medical Claim payments during the year	(3,775,159)	(2,944,877)
Insurance-Stop Loss	(384,370)	(464,184)
Other services and charges	(384,061)	(384,922)
Health Insurance reserve, Dec. 31st	\$ 2,020,466	\$ 2,550,138

NOTE 18 ACCOUNTING CHANGES AND REPORTING CHANGES

The City has adopted reporting requirements of GASB Statement 72, *Fair Value Measurement and Application* for the year 2017. See note 5 for implementation of GASB Statement 79.

City of Federal Way				
Schedule of Proportionate Share of the Net Pension Liability				
PERS 1				
As of June 30, 2017				
Last 10 Fiscal Years*				
		2015	2016	2017
Employer's proportion of the net pension liability (asset)	%	0.110831%	0.114008%	0.114547%
Employer's proportionate share of the net pension liability	\$	5,797,492	6,122,767	5,435,344
TOTAL	\$	5,797,492	6,122,767	5,435,344
Employer's covered employee payroll	\$	12,744,440	13,650,352	14,496,336
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	%	45.49%	44.85%	37.49%
Plan fiduciary net position as a percentage of the total pension liability	%	59.10%	57.03%	61.24%

Notes to Schedule:

* Employer's covered employee payroll increased by \$846K, but net pension liability decreased by \$687K Additional years information will be displayed as it becomes available.

City of Federal Way				
Schedule of Proportionate Share of the Net Pension Liability				
PERS 2 - 3				
As of June 30, 2017				
Last 10 Fiscal Years*				
		2015	2016	2017
Employer's proportion of the net pension liability (asset)	%	0.143122%	0.146079%	0.147025%
Employer's proportionate share of the net pension liability	\$	5,113,831	7,354,962	5,108,416
TOTAL	\$	5,113,831	7,354,962	5,108,416
Employer's covered employee payroll	\$	12,744,440	13,650,352	14,496,336
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	%	40.13%	53.88%	35.24%
Plan fiduciary net position as a percentage of the total pension liability	%	89.20%	85.82%	90.97%

Notes to Schedule:

* Employer's covered employee payroll increased by \$846K, but net pension liability decreased by \$2.25 million. Additional years information will be displayed as it becomes available.

City of Federal Way				
Schedule of Proportionate Share of the Net Pension Liability (Asset)				
LEOFF 2				
As of June 30, 2017				
Last 10 Fiscal Years*				
		2015	2016	2017
Employer's proportion of the net pension liability (asset) %	0.427847%	0.415772%	0.434711%	
Employer's proportionate share of the net pension liability (asset) \$	(4,397,411)	(2,418,255)	(6,032,380)	
LEOFF 2 - State's proportionate share of the net pension liability (asset) associated with the employer \$	(2,907,569)	(1,576,526)	(3,913,092)	
TOTAL \$	(7,304,980)	(3,994,781)	(9,945,472)	
Employer's covered employee payroll \$	12,477,707	12,625,740	13,610,662	
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll %	-35.24%	-19.15%	-44.32%	
Plan fiduciary net position as a percentage of the total pension liability %	111.67%	106.04%	113.36%	

Notes to Schedule:

* Employer's covered employee payroll increased by \$985K and net pension asset increased by \$3.6M. Additional years information will be displayed as it becomes available.

City of Federal Way			
Schedule of Employer Contributions			
PERS 1			
As of December 31, 2017			
Last 10 Fiscal Years*			
	2015	2016	2017
Statutorily or contractually required contributions	\$ 584,359	663,133	745,500
Contributions in relation to the statutorily or contractually required contributions	\$ (584,359)	(663,133)	(745,500)
Contribution deficiency (excess)	\$ -	-	-
Covered Employer Payroll	\$ 13,309,318	13,887,684	15,134,713
Contributions as a percentage of covered employee payroll	% 4.39%	4.77%	4.93%

Notes to Schedule:

* Employer's covered employee payroll increased by \$1.25 million. Additional years information will be displayed as it becomes available.

City of Federal Way			
Schedule of Employer Contributions			
PERS 2-3			
As of December 31, 2017			
Last 10 Fiscal Years*			
	2015	2016	2017
Statutorily or contractually required contributions	\$ 750,485	866,073	1,034,441
Contributions in relation to the statutorily or contractually required contributions	\$ (750,485)	(866,073)	(1,034,441)
Contribution deficiency (excess)	\$ -	-	-
Covered Employer Payroll	\$ 13,309,318	13,887,684	15,134,713
Contributions as a percentage of covered employee payroll	% 5.64%	6.24%	6.83%

Notes to Schedule:

* Employer's covered employee payroll increased by \$1.25 million. Additional years information will be displayed as it becomes available.

City of Federal Way			
Schedule of Employer Contributions			
LEOFF 2			
As of December 31, 2017			
Last 10 Fiscal Years*			
	2015	2016	2017
Statutorily or contractually required contributions	\$ 625,331	669,609	688,577
Contributions in relation to the statutorily or contractually required contributions	\$ (625,331)	(669,609)	(688,577)
Contribution deficiency (excess)	\$ -	-	-
Covered Employer Payroll	\$ 12,382,722	13,274,725	13,365,190
Contributions as a percentage of covered employee payroll	% 5.05%	5.04%	5.15%

Notes to Schedule:

* Employer's covered employee payroll increased by \$90K. Additional years information will be displayed as it becomes available.

MCAG NO. 0711

SCHEDULE 16

**CITY OF FEDERAL WAY, WASHINGTON SCHEDULE OF
EXPENDITURES OF FEDERAL AWARDS For Year Ended
December 31, 2017**

Federal Agency Pass-Thru Agency (if applicable) Federal Program Name	BARS Account	CFDA #	Other I.D. #	From Pass-Through Awards	From Direct Awards	Total Expenditures	Passed through to Subrecipients
US Department of Housing and Urban Development Office of Community Planning and Development							
Community Development Block Grants/Entitlement Grants	119-7300-801-331-14-218	14.218	801 B-17-MC-53-0015	-	5,400	5,400	5,400
Community Development Block Grants/Entitlement Grants	119-7300-802-331-14-218	14.218	802 B-17-MC-53-0015	-	65,588	65,588	65,588
Community Development Block Grants/Entitlement Grants	119-7300-803-331-14-218	14.218	803 B-17-MC-53-0015	-	12,838	12,838	12,838
Community Development Block Grants/Entitlement Grants	119-7300-951-331-14-218	14.218	951 B-17-MC-53-0015	-	76,000	76,000	-
Community Development Block Grants/Entitlement Grants	119-7300-955-331-14-218	14.218	955 B-17-MC-53-0015	-	14,580	14,580	14,580
Community Development Block Grants/Entitlement Grants	119-7300-956-331-14-218	14.218	956 B-17-MC-53-0015	-	6,500	6,500	6,500
Community Development Block Grants/Entitlement Grants	119-7300-961-331-14-218	14.218	961 B-17-MC-53-0015	-	100,441	100,441	-
Community Development Block Grants/Entitlement Grants	119-7300-966-331-14-218	14.218	966 B-17-MC-53-0015	-	32,940	32,940	-
Community Development Block Grants/Entitlement Grants	119-7300-967-331-14-218	14.218	967 B-17-MC-53-0015	-	21,173	21,173	21,173
Community Development Block Grants/Entitlement Grants	119-7300-987-331-14-218	14.218	987 B-17-MC-53-0015	-	9,720	9,720	9,720
Community Development Block Grants/Entitlement Grants	119-7300-900-331-14-218	14.218	900 B-17-MC-53-0015	-	198,691	198,691	-
Community Development Block Grants/Entitlement Grants	119-7300-994-331-14-218	14.218	994 B-17-MC-53-0015	-	86,931	86,931	86,931
Community Development Block Grants/Entitlement Grants	119-7300-996-331-14-218	14.218	996 B-17-MC-53-0015	-	53,404	53,404	-
Community Development Block Grants/Entitlement Grants	119-7300-997-331-14-218	14.218	997 B-17-MC-53-0015	-	9,720	9,720	9,720
Community Development Block Grants/Entitlement Grants	119-7300-998-331-14-218	14.218	998 B-17-MC-53-0015	-	240,000	240,000	240,000
SUBTOTAL CFDA 14.218 Entitlement Grants Cluster			REFER TO NOTES 1-3		933,926	933,926	472,450
US Department of Housing and Urban Development Office of Community Planning and Development							
Community Development Block Grants Section 108 Loan Guarantees	308-5800-110-331-14-248	14.248	B-13-MC-53-0015	-	3,030,000	3,030,000	-
SUBTOTAL CFDA 14.248			REFER TO NOTES 1-4		3,030,000	3,030,000	
US Department of Justice Bureau of Justice Assistance							
Bulletproof Vest Partnership Program	001-0000-090-331-16-607	16.607	BPV	-	32,765	32,765	-
SUBTOTAL CFDA 16.607			REFER TO NOTES 1-3		32,765	32,765	-
US Department of Justice Bureau of Justice Assistance							
<i>Pass-thru City of Seattle</i>							
Edward Byrne Memorial Justice Assistance Grant Program	001-0000-090-333-16-738	16.738	2015-DJ-BX-0552	1,837	-	1,837	-
SUBTOTAL CFDA 16.738			REFER TO NOTES 1-3		1,837	-	1,837
US Department of Justice Office of Community Oriented Policing Services							
Public Safety Partnership and Community Policing Grants	001-0000-090-331-16-710	16.710	#2017UMWX0104	-	75,166	75,166	-
SUBTOTAL CFDA 16.710			REFER TO NOTES 1-3		75,166	75,166	-
US Department of Transportation National Highway Traffic Safety Administration							
<i>Pass-thru Washington Traffic Safety Commission</i>							
State and Community Highway Safety	001-0000-090-333-20-600	20.600	DHGN	23,148	-	23,148	-
SUBTOTAL CFDA 20.600 Highway Safety Cluster			REFER TO NOTES 1-3		23,148	-	23,148
US Department of Transportation Federal Highway Administration							
<i>Pass-thru Washington State DOT</i>							
Highway Planning and Construction	306-4400-165-333-20-050	20.205	STPUL-0099(126)	4,792,825	-	4,792,825	-
Highway Planning and Construction	306-4400-193-333-20-050	20.205	CM-1001(004)	642,828	-	642,828	-
Highway Planning and Construction	306-4400-194-333-20-050	20.205	SRTS-0509(031)	18,666	-	18,666	-
Highway Planning and Construction	306-4400-199-333-20-050	20.205	HSIP-0005(409)	58,214	-	58,214	-
Highway Planning and Construction	306-4400-200-333-20-050	20.205	HLP-0443(008)	221,164	-	221,164	-
Highway Planning and Construction	306-4400-202-333-20-050	20.205	HSIP-0005(464)	33,550	-	33,550	-
Highway Planning and Construction	306-4400-209-333-20-050	20.205	NHPP-1008(004)	14,055	-	14,055	-
Highway Planning and Construction	306-4400-210-333-20-050	20.205	NHPP-1013(005)	16,689	-	16,689	-
Highway Planning and Construction	306-4400-211-333-20-050	20.205	HSIP-1031(005)	84,288	-	84,288	-
SUBTOTAL CFDA 20.205 Highway Planning and Construction Cluster			REFER TO NOTES 1-3		5,882,279	-	5,882,279
US Department of Homeland Security							
<i>Pass-thru Military Department</i>							
FEMA Grant	101-0000-000-333-97-036	97.036	ER-1701(029)	92,636	-	92,636	-
Emergency Management Performance Grants	101-0000-000-333-97-042	97.042	n/a	37,500	-	37,500	-
SUBTOTAL CFDA 97.042			REFER TO NOTES 1-3		130,136	-	130,136

Note 1-Basis of Accounting

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

Note 2- Program Costs

The amounts shown as current year expenditures represent only the federal grant portion of the program costs. Entire program costs, including the City of Federal Way's portion, are more than shown. Such expenditures are recognized following, as applicable, either the cost principles in the 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 of Federal Way did not use the new 10% de minimis indirect cost rate as covered in 200.414 Indirect (F&A) costs, and is currently only charging direct costs to grants received.

Note 4.- Federal Loans

The City of Federal Way was approved by the US Department of Housing and Urban Development Office of Community Planning and Development to receive a loan totaling \$3,030,000 to finance the Performing Arts & Event Center economic development project

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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.

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