

Washington State Auditor's Office
Financial Statements and Federal Single Audit Report

City of Edmonds
Snohomish County

Audit Period
January 1, 2013 through December 31, 2013

Report No. 1012253

Issue Date
July 21, 2014



Washington State Auditor
Troy Kelley

Independence • Respect • Integrity



Washington State Auditor Troy Kelley

July 21, 2014

Mayor and City Council
City of Edmonds
Edmonds, Washington

Report on Financial Statements and Federal Single Audit

Please find attached our report on the City of Edmonds' 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,

TROY KELLEY
STATE AUDITOR

Table of Contents

**City of Edmonds
Snohomish County
January 1, 2013 through December 31, 2013**

Federal Summary	1
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 <i>Government Auditing Standards</i>	3
Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control over Compliance in Accordance with OMB Circular A-133.....	5
Independent Auditor's Report on Financial Statements	8
Financial Section.....	11

Federal Summary

City of Edmonds Snohomish County January 1, 2013 through December 31, 2013

The results of our audit of the City of Edmonds are summarized below in accordance with U.S. Office of Management and Budget Circular A-133.

FINANCIAL STATEMENTS

An unmodified opinion was issued on the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information.

Internal Control Over Financial Reporting:

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

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

FEDERAL AWARDS

Internal Control Over Major Programs:

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

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

We reported no findings that are required to be disclosed under section 510(a) of OMB Circular A-133.

Identification of Major Programs:

The following was a major program during the period under audit:

CFDA No.	Program Title
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 OMB Circular A-133, was \$300,000.

The City qualified as a low-risk auditee under OMB Circular A-133.

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 Edmonds
Snohomish County
January 1, 2013 through December 31, 2013**

Mayor and City Council
City of Edmonds
Edmonds, 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, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Edmonds, Snohomish County, Washington, as of and for the year ended December 31, 2013, 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 27, 2014. As discussed in Note 1 to the financial statements, during the year ended December 31, 2013, the City implemented Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*.

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.

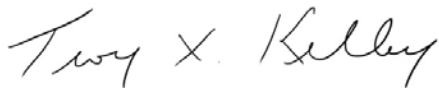
COMPLIANCE AND OTHER MATTERS

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.



TROY KELLEY
STATE AUDITOR

June 27, 2014

Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control over Compliance in Accordance with OMB Circular A-133

**City of Edmonds
Snohomish County
January 1, 2013 through December 31, 2013**

Mayor and City Council
City of Edmonds
Edmonds, Washington

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

We have audited the compliance of the City of Edmonds, Snohomish County, Washington, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2013. The City's major federal programs are identified in the accompanying Federal Summary.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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, 2013.

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 OMB Circular A-133, 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 OMB Circular A-133. 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 cursive script that reads "Troy X. Kelley".

TROY KELLEY
STATE AUDITOR

June 27, 2014

Independent Auditor's Report on Financial Statements

City of Edmonds Snohomish County January 1, 2013 through December 31, 2013

Mayor and City Council
City of Edmonds
Edmonds, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Edmonds, Snohomish County, Washington, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed on page 11.

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, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Edmonds, as of December 31, 2013, and the respective changes in financial position and, where applicable, cash flows thereof, and the budgetary comparison for the General Fund, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As discussed in Note 1 to the financial statements, in 2013, the City adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 12 through 23, information on postemployment benefits other than pensions and pension trust fund information on pages 77 through 78 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.

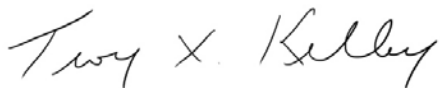
Supplementary and Other Information

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 U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. 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 27, 2014 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.



TROY KELLEY
STATE AUDITOR

June 27, 2014

Financial Section

City of Edmonds Snohomish County January 1, 2013 through December 31, 2013

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2013

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2013

Statement of Activities – 2013

Balance Sheet – Governmental Funds – 2013

Reconciliation of Governmental Funds Balance Sheet to the Statement of Net
Position – 2013

Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental
Funds – 2013

Reconciliation of Governmental Funds Statement of Revenues, Expenditures and
Changes in Fund Balance to the Statement of Activities – 2013

Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and
Actual – General Fund – 2013

Statement of Net Position – Proprietary Funds – 2013

Statement of Revenues, Expenses and Changes in Fund Net Position – Proprietary
Funds – 2013

Statement of Cash Flows – Proprietary Funds – 2013

Statement of Net Position – Fiduciary Funds – 2013

Statement of Changes in Fiduciary Net Position – Fiduciary Funds – 2013

Notes to Financial Statements – 2013

REQUIRED SUPPLEMENTARY INFORMATION

Firemen's Pension Trust Fund – 2013

Retiree Medical and Long-Term Care Benefits for LEOFF 1 Employees – 2013

Notes to the Required Supplemental Information - 2013

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Expenditures of Federal Awards – 2013

Notes to the Schedule of Expenditures of Federal Awards – 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Edmonds (City) presents this Management's Discussion and Analysis of its financial activities for the fiscal year ended December 31, 2013. The City's discussion and analysis is designed to:

- Assist the reader in focusing on significant financial issues
- Provide an overview of the City's financial activity
- Identify changes in the City's financial position (its ability to meet future years' challenges)
- Identify any material deviations from the approved budget
- Identify individual fund issues or concerns

Management's Discussion and Analysis is designed to focus on the current year's activities, resulting changes and currently known facts. Therefore, it should be read in conjunction with the Transmittal Letter and the City's financial statements.

Financial Highlights

- At December 31, 2013 the City's net position, the amount by which total assets exceeded total liabilities, totaled \$154.3 million. Of this amount, \$113 million is invested in capital assets, such as land, buildings, and infrastructure net of related debt, \$16.1 million is restricted for debt service, construction, and various other purposes and the remaining Net Position of \$25.2 million is unrestricted.
- The City's total net position increased by \$8.2 million or 5.6% in 2013. Governmental activities increased by \$6.1 million and business-type activities increased by \$2.1 million.
- Governmental funds reported a combined ending fund balance of \$18.6 million; a \$3.6 million increase over the prior year. Of this amount, \$13.2 million is unassigned and available to fund ongoing activities. The unassigned fund balance of \$13.2 million represents 41.2% of total 2013 general fund expenditures.
- Total capital assets increased by \$6.4 million or 4.6% in 2013.
- Total debt increased by a net of \$12.1 million during the current fiscal year. Outstanding bonded debt, loans, and long term contracts at year-end totaled \$46.7 million.

Using this Annual Financial Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the City of Edmonds as a financial whole or as an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial conditions.

The Statement of Net Position and Statement of Activities provide information about the activities of the whole City presenting both an aggregate view of the City's finances and a longer-term view of those assets. Major fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what dollars remain for future spending. The fund financial statements also look at the City's most significant funds with all other nonmajor funds presented in total in one column.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Edmonds 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 Non-Major Proprietary Funds. The other set of supplementary information is the Statistical Section. This section provides multi-year views 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 Edmonds. This section provides a long-term perspective on the City's economy.

Government-wide Financial Statements

The **government-wide financial statements** are designed to be corporate-like in that all governmental and business-type activities are consolidated into columns which add to a total for the City.

The focus of the **Statement of Net Position** is designed to be similar to bottom-line results for the City and its governmental and business-type activities. This statement combines and consolidates governmental funds' current financial resources (short-term spendable resources) with capital assets and long-term obligations. Over time, increases or decreases in net position may be one indicator of improvement or deterioration in the City's overall financial health.

The **Statement of Activities** is focused on both the gross and net cost of various functions, including both governmental and business-type activities, which are supported by the City's general tax and other revenues. This is intended to summarize and simplify the user's analysis of cost of various governmental services and/or subsidy to various business-type activities. The revenue generated by the specific functions (charges for services, grants, and contributions) is compared to the expenses for those functions to show how much each function either supports itself or relies on taxes and other general funding sources for support. All activity on this statement is reported on the accrual basis of accounting, requiring that revenues are reported when they are earned and expenses are reported when they are incurred, regardless of when cash is received or disbursed.

Governmental activities of the City include general government (executive, finance, legal, human resources, court), security (police), physical environment, economic environment, transportation, health and human services, and culture and recreation. The City's business-type activities include water, sewer, storm water and wastewater treatment utilities. Governmental activities are primarily supported by taxes, charges for services, and grants while business-type activities are self-supporting through user fees and charges.

The City also includes as a discretely presented component unit the Edmonds Public Facilities District (EPFD), a performing arts center in Edmonds, and the EPFD's blended component unit, the Edmonds Center for the Arts (ECA), a non-profit established to collect donations and manage the operations for the EPFD. Although legally separate, the EPFD is important because the City provides financial support and oversight responsibilities connected to the activities of the board.

Fund Financial Statements

The fund financial statements will look familiar to the traditional users of governmental financial statements. However, the focus now is on major funds rather than fund types. Individual funds are used to maintain control over resources that are segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with

finance-related legal requirements. There are three categories of City funds: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds account for essentially the same functions reported as governmental activities in the government-wide financial statements. Most of the City's basic services are reported in the governmental funds. These statements, however, focus on cash and other assets that can readily be converted to available resources, as well as any balances remaining at year-end. Such information is useful in determining what financial resources are available in the near future to finance the City's programs.

Readers may better understand the long-term impact of the government's near-term financing decisions by comparing the information presented for the governmental funds with similar information presented for governmental activities in the government-wide financial statements. The Governmental Funds' Balance Sheet and the Governmental Funds' Statement of Revenues, Expenditures, and Changes in Fund Balances provide a reconciliation to facilitate the comparison.

Information for the major governmental funds is presented separately in the Governmental Fund Balance Sheet and in the Governmental Fund's Statement of Revenues, Expenditures, and Changes in Fund Balances; information for the nonmajor funds is presented in the aggregate.

The City's main operating fund is the general fund. However, the City maintains many accounts and six subfunds within the general fund. The remaining governmental funds are combined into a single column labeled nonmajor government funds. Individual fund data for each of the nonmajor 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 an annual budget. Budgets are adopted at the fund level and according to state law. A budgetary comparison is presented for the General Fund as a basic financial statement.

The basic governmental fund financial statements can be found after the government-wide statements of this report.

Proprietary funds account for services for which the City charges outside customers and internal City departments. Proprietary funds provide the same information as shown in the government-wide financial statements, only in more detail, since both use the accrual basis of accounting. Proprietary funds report the same functions presented as business-type activities in the government-wide financial statements.

The City has two types of proprietary funds, enterprise funds and internal service funds. Enterprise funds are used to account for goods and services provided to citizens. Internal service funds are used to account for goods and services provided internally to various City departments.

The enterprise fund statements provide information for the City's water, sewer, storm water and wastewater treatment utilities. Enterprise funds of the City are consolidated into one fund for financial statement reporting purposes. The City uses an internal service fund to account for its fleet of vehicles. Because these services largely benefit governmental rather than business-type functions, they have been included within the governmental activities in the government-wide financial statements.

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

Fiduciary funds account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governments, or other funds. Fiduciary funds are not included in the government-wide financial statements because their assets are not available to support City programs. The City's fiduciary activities are reported in a separate Statement of Fiduciary Net Position and a Statement of Changes in Fiduciary Net Position as part of the basic financial statements.

The basic fiduciary fund financial statements can be found following the proprietary fund statements of this report.

Notes to the Financial Statements

The notes to the financial statements are an integral part of the financial statements. They provide additional disclosures essential to a full understanding of the information provided in the government-wide and fund financial statements. The notes to the financial statements immediately follow the basic financial statements in this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning a schedule of funding progress for the Firemen's Pension Trust Fund and other post-employment benefits. Additional pension benefit information is found in note 11.

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.

The following table is a condensed version of the 2013 government-wide statement of net position with a comparison to 2012:

Condensed Statement of Net Position

	Governmental Activities		Business-type Activities		Total	
	As of 12/31/13	As of 12/31/12	As of 12/31/13	As of 12/31/12	As of 12/31/13	As of 12/31/12
Current and other assets	\$ 33,128,272	\$ 28,888,817	\$ 28,621,684	\$ 19,478,622	\$ 61,749,956	\$ 48,367,439
Capital assets, net of accumulated depreciation	71,043,192	72,037,041	75,306,543	67,838,217	146,349,735	139,875,258
Total assets	104,171,464	100,925,858	103,928,227	87,316,839	208,099,691	188,242,697
Long-term Liabilities	17,031,190	19,044,977	33,966,367	19,600,092	50,997,557	38,645,069
Other liabilities	1,528,943	2,183,815	1,498,037	1,284,828	3,026,980	3,468,643
Total liabilities	18,560,133	21,228,792	35,464,404	20,884,920	54,024,537	42,113,712
Net Position						
Invested in capital assets, net of related debt	61,978,358	61,259,051	51,071,627	55,063,391	113,049,985	116,322,442
Restricted	4,923,480	3,793,023	11,138,901	7,409,482	16,062,381	11,202,505
Unrestricted	18,540,155	14,644,992	6,363,897	3,959,046	24,904,052	18,604,038
Total Net Position	\$ 85,441,993	\$ 79,697,066	\$ 68,574,425	\$ 66,431,919	\$ 154,016,418	\$ 146,128,985

Analysis of Net Position

Total net position of the primary government of \$154.3 million (assets in excess of liabilities) at December 31, 2013 increased \$8.2 million or 5.6% compared to December 31, 2012. The increase is mainly due to governmental activities which contributed 73.9% or \$6.1 million of the increase.

The largest component of the City's net position, \$113 million, or 73.3%, is its investment in capital assets, less debt related to the acquisition or construction of those assets. These capital assets, such as streets, parks, trails, and vehicles and equipment related to police and public works, are used to provide

services to the citizens. As a result, these assets are not for sale, and are therefore not available to fund current and future City obligations.

Approximately \$9.3 million of the primary government's total net position are restricted for construction projects to renovate or improve the City's buildings, parks, street and utilities infrastructure. The remaining balance of net position is primarily allocated to restrictions for debt service payments, transportation improvements, and other purposes in the amount of \$6.8 million and unrestricted net position of \$25.2 million. The business-type unrestricted assets of \$6.4 million may only be spent on utility activities. Other functions of the City may access the governmental unrestricted assets of \$18.8 million to meet ongoing obligations to citizens and creditors. There are no restrictions, commitments, or other limitations that significantly affect the availability of resources for future use.

Unrestricted net position of the City's business-type activities, totaling \$6.4 million, represent the portion of unrestricted net position that may only be spent on activities related to one of the City's utilities (water, sewer, storm water and wastewater treatment). Examples of utility activities include maintenance of water/sewer mains, pump and lift stations, storm drain flushing, water meter reading, and the wastewater treatment plant.

Restricted governmental fund net position is \$4.9 million and are restricted for purposes such as debt service, public safety and other purposes.

The remaining net position of the City may be used for functions such as general government employee salaries and supplies, park and road maintenance, and police services.

Changes in Net Position

The change in net position represents the increase or decrease in City net position resulting from its various activities.

Following is a condensed version of the City's changes in net position. The table shows the revenues, expenses and related changes in net position for both governmental-type and business-type activities:

Changes in Net Position

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Revenues:						
Program revenues:						
Charges for services	\$ 9,149,875	\$ 8,713,374	\$ 16,630,405	\$ 15,970,380	\$ 25,780,280	\$ 24,683,754
Operating grants and contributions	973,007	\$ 1,324,353	161,294	53,743	1,134,301	1,378,096
Capital grants and contributions	2,566,575	\$ 1,942,259	1,447,298	1,052,305	4,013,873	2,994,564
General revenues:						
Property tax	13,474,665	\$ 13,382,296	-	-	13,474,665	13,382,296
Retail sales and use tax	6,104,618	\$ 5,637,393	-	-	6,104,618	5,637,393
Interfund utility tax	1,709,124	\$ 1,527,310	-	-	1,709,124	1,527,310
Utility tax	4,722,333	\$ 4,813,324	-	-	4,722,333	4,813,324
Excise tax	2,120,330	\$ 1,819,610	-	-	2,120,330	1,819,610
Payments from component unit	325,693	\$ 404,161	-	-	325,693	404,161
Investment earnings	3,926	\$ 22,565	31,492	22,786	35,418	45,351
Miscellaneous revenue	125,781	\$ 64,315	38,039	-	163,820	64,315
Gain on sale of capital assets	46,987	\$ (148,542)	-	-	46,987	(148,542)
Total revenues	41,322,914	\$ 39,502,418	18,308,528	17,099,214	59,631,442	56,601,632
Expenses:						
General government	7,586,841	\$ 7,860,158	-	-	7,586,841	7,860,158
Public safety	17,604,167	\$ 17,490,480	-	-	17,604,167	17,490,480
Transportation	4,445,078	\$ 3,922,273	-	-	4,445,078	3,922,273
Physical environment	1,502,516	\$ 1,546,080	-	-	1,502,516	1,546,080
Culture and recreation	3,941,859	\$ 4,237,656	-	-	3,941,859	4,237,656
Economic environment	1,072,629	\$ 1,011,062	-	-	1,072,629	1,011,062
Health and human services	8,558	\$ 12,168	-	-	8,558	12,168
Interest on long-term debt	191,155	\$ 760,142	-	-	191,155	760,142
Combined utility fund	-	\$ -	15,845,552	15,258,298	15,845,552	15,258,298
Total expenses	36,352,803	\$ 36,840,019	15,845,552	15,258,298	52,198,355	52,098,317
Increase in net position before transfers	4,970,111	\$ 2,662,399	2,462,976	1,840,916	7,433,087	4,503,315
Transfers	1,067	\$ 565,628	(1,067)	(565,628)	-	-
Change in net position	4,971,178	\$ 3,228,027	2,461,909	1,275,288	7,433,087	4,503,315
Net position-beginning of period	79,697,066	\$ 76,690,742	66,431,919	65,558,827	146,128,985	142,249,569
Prior Period Adjustment	(109,906)	\$ (221,703)	-	(402,196)	(109,906)	(623,899)
ADJUSTMENT FOR ADOPTION OF GASB 62 and GASB 65 (NOTE 1)	883,655	\$ -	(319,403)	-	564,252	-
Net position-end of period	\$ 85,441,993	\$ 79,697,066	\$ 68,574,425	\$ 66,431,919	\$ 154,016,418	\$ 146,128,985

Analysis of the Change in Net Position

Total government-wide revenues of the primary government increased \$3.0 million or 5.3% and total expenses decreased \$205,912 or 0.4% for the prior year. These changes are discussed in more detail below.

Governmental Activities:

Governmental activities contributed \$6.1 million or 73.9% of the total change in net position of \$8.2 million. The increase is mainly due to revenues exceeding expenses.

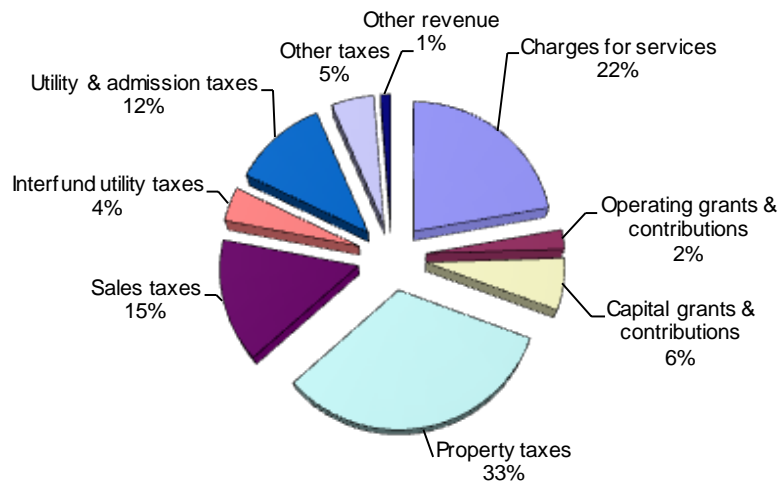
Total revenues for governmental activities increased \$1.8 million or 4.6%. The increase is mainly due to increased tax revenues:

- Property tax revenue increased \$92,369, or .7%.
- Sales tax collections increased by \$467,225, or 8.3%.
- Utility taxes declined by \$90,991 or -1.9%.
- Real Estate Excise Tax (REET) revenue increased by \$300,720, or 16.5%.

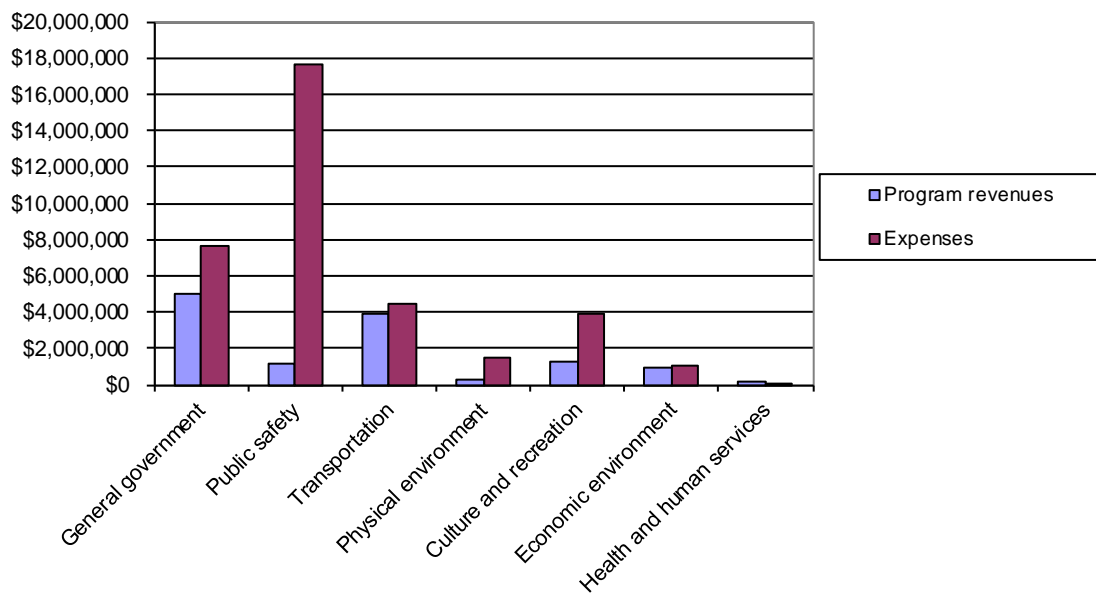
Governmental activity expenses decreased by \$793,166, or 2.2 %. The decrease reflected the desire of City administration to adapt spending patterns to actual revenue collections throughout the year.

The next chart summarizes the government activity revenue by source, while the second one reflects the specific programs' revenues and related expenses for the various activities of the City. Gaps between specific programs' revenues and their related expenditures are funded through general tax revenues.

Revenues by Source - Governmental Activities



Program Revenues and Expenses - Governmental Activities

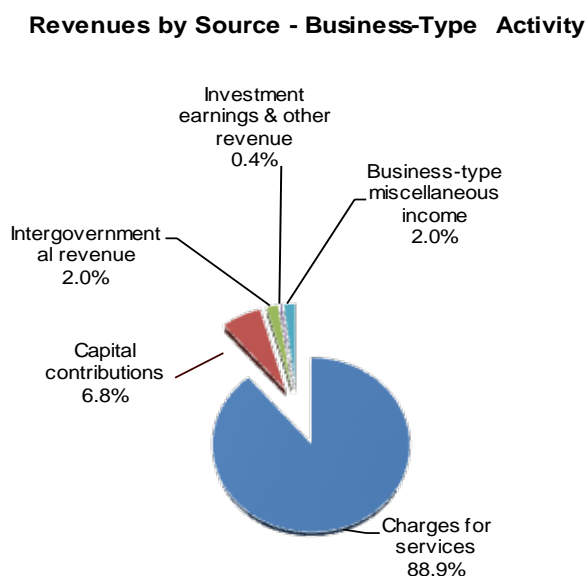


Business-type activities net position increased by \$2,142,506. Key components of this increase include:

- Net Income (Change in Net Position) went up by \$1,186,621, or 93% from 2012. In 2013, this change was \$2,461,909, and with the adjustments for adoption of new accounting standards decreased fund balance by \$319,403, this totals the increase of \$2,146,506 for business-type activities.
- Business-type activities expenses increased by \$587,254, or 3.8%, from 2012.
- Net transfers-in totaled \$1,067. The transfers generally related to construction costs accounted for in other funds where the utility fund also incurred costs for improvements, such as a water main replacement when a street overlay occurs.

The majority of net position in the City's enterprise funds relate to capital asset infrastructure, such as water and sewer mains, storm water infrastructure, and the wastewater treatment plant. As such, most of the net position are not available to support the ongoing expenses of the funds.

The following chart depicts major sources of revenue for business-type activities:



Financial Analysis of Governments Funds

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

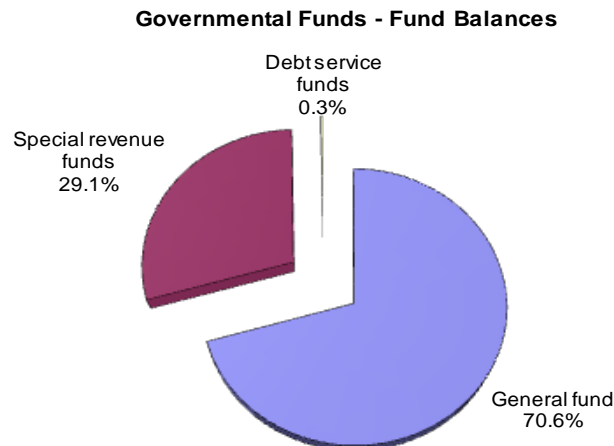
Governmental funds

The purpose of the City's governmental funds is to report on near-term revenues/financial resources and expenditures. This information helps determine the City's financial requirements in the near future. Specifically, fund balance is a good indicator of the City's financial resources.

As of December 31, 2013, the City's governmental funds had combined fund balances of \$18,647,446 an increase of \$3,610,162 or 24%. Approximately 71% or \$13.1 million of this amount constitutes unrestricted General Fund balance, which is available for spending at the City Council's discretions. The remainder of the fund balance is restricted to indicate that it is not available for new spending because it has already been committed for debt service payments, public safety, transportation, recreation and other purposes.

The General Fund is the primary operating fund of the City. Total fund balance increased \$2.5 million or 23%. The increase in fund balance is mainly due to an increase development related revenues and increases in property and sales tax receipts.

The following chart shows the relative fund balances for governmental funds:



Proprietary funds

The City of Edmonds Proprietary funds provide the same type of information found in the government-wide statements, but in more detail. Unrestricted net position of the combined utility funds at the end of the year amounted to \$6.4 million. The total change in net position for the three funds was \$2.1 million increase.

General Fund Budgetary Highlights

The budget is developed to study and review the City's financial direction. It outlines how financial resources will be managed during the upcoming fiscal year; the course can be changed through the allocation of resources. Major groups that participate in the budget process are the Mayor, City Council, Department directors, Managers, and interested Edmonds citizens.

The 2013 budget was amended to include an additional \$638,875 in appropriations. The majority of this difference was due to increasing transfers to other funds.

A comparison of the actual performance of the general fund on a budgetary basis to the final budget indicates that the total revenues were more than budgeted total revenues by \$1,604,124. This was due to an increases in retail sales and use tax, charges for services, and an increase in licenses and permits among others.

Expenditures were approximately \$1.7 million below budget, the largest savings were due to salary and benefits of \$137,457, professional services of \$492,215, intergovernmental services of \$319,916, and the remaining \$744,020 was due to various other expense line items.

Capital Asset and Debt Administration

Capital Assets

The City's investment in capital assets for both its governmental and business-type activities as of December 31, 2013 totaled \$146.3 million (net of accumulated depreciation), an increase of \$6.4 million

from 2012. This investment in capital assets includes land, buildings, improvements, machinery and equipment, construction in progress, utility transmission/distribution systems, roads, and other infrastructure.

Major capital asset changes during the year include:

- Improvements were incurred during the year, resulting in an increase in governmental activities of \$3.2 million. The majority is due to projects related to the 75th and 76th Walkway Program.
- \$2.3 million was spent by proprietary funds on capital projects during the year. The largest additions were the result of waterline replacements.

A summary of the City's net position follows:

Summary of Capital Assets (net of depreciation)

	Governmental Activities		Business-type Activities		Total	
	As of 12/31/13	As of 12/31/12	As of 12/31/13	As of 12/31/12	As of 12/31/13	As of 12/31/12
Land	\$ 14,530,663	\$ 14,530,663	\$ 1,257,106	\$ 1,257,106	\$ 15,787,769	\$ 15,787,769
Building	11,190,598	11,942,436	20,877,327	21,581,600	32,067,925	33,524,036
Improvements other than buildings	10,065,705	6,794,504	40,632,539	38,313,154	50,698,244	45,107,658
Infrastructure	24,441,625	26,752,773	-	-	24,441,625	26,752,773
Machinery and equipment	2,140,195	2,381,055	247,427	230,209	2,387,622	2,611,264
Intangible assets	-	-	287,427	294,876	287,427	294,876
Construction in progress	8,674,405	9,635,611	12,004,167	6,161,274	20,678,572	15,796,885
Total	\$ 71,043,191	\$ 72,037,042	\$ 75,305,993	\$ 67,838,219	\$ 146,349,184	\$ 139,875,261

More detailed information on capital assets is provided in note 9.

Long-term Debt

At the end of the current fiscal year, the City had total bonded debt outstanding of \$42,765,000. Of this amount, \$11,919,474 is general obligation bonds for governmental activities, \$3,100,526 is general obligation bonds for business-type activities, for a total of \$15,020,000 in general obligation bonds, and \$27,745,000 is revenue bonds for the City operated utilities. The City currently maintains a rating of Aa3 with Moody's for its revenue bonds, Aa2 for voter approved general obligation bonds, and Aa3 for councilmanic general obligation bonds.

The following schedule summarizes the City's long-term debt:

Summary of Long-Term Debt

	Governmental Activities		Business-type Activities		Total	
	As of 12/31/13	As of 12/31/12	As of 12/31/13	As of 12/31/12	As of 12/31/13	As of 12/31/12
General obligation debt	\$ 11,919,474	\$ 13,604,427	\$ 3,100,526	\$ 3,320,573	\$ 15,020,000	\$ 16,925,000
Revenue bonds	-	-	27,745,000	13,250,000	27,745,000	13,250,000
Capital contracts	892,330	1,063,924	-	-	892,330	1,063,924
Public Works Trust Fund loans	823,692	895,893	2,186,384	2,407,905	3,010,076	3,303,798
Total	\$ 13,635,496	\$ 15,564,244	\$ 33,031,910	\$ 18,978,478	\$ 46,667,406	\$ 34,542,722

More detailed information on long-term debt is provided in note 13.

Economic Factors

The economic conditions have continued to increase at a slow rate, sales tax collections increased 7.7%, and REET revenue has increased 19.5%. Property tax and Utility tax revenue collections are still holding steady. City staff has continued to hold the line on spending and therefore the City's 2014 budget reflects no new programs and is passed in large part on the 2013 estimated actual results with minimal increases to 2013 revenue.

Economic Overview

The United States economy has continued to grow slightly in 2013, but for many Americans life has remained the same. Unemployment rates continue their slow decline, leaving many Americans jobless. The National employment rates decreased to 7.4% at the end of 2013 from 8.1% at the end of 2012, Washington State employment rates decreased to 6.7% at the end of 2013 from 7.4% at the end of 2012, and the Puget Sound Unemployment rates decreased to 5.3% at the end of 2013 from 5.9% at the end of 2012.

In 2013, we saw oil and gas prices increase due to a combination of factors, including increasing demand and turmoil in some key oil producing regions.

Like the rest of the nation, the Washington State economy is still dealing with a severely challenged economy. The Puget Sound region, however, is doing much better than the rest of the country, with strong employment growth.

The economy of the City of Edmonds is primarily based on retail, service activity, health care and waterfront activity and have benefited from stronger employment trends. Edmonds is located along the shore of Puget Sound about 15 miles north of the City of Seattle and south of Everett, Edmonds is primarily an upper-middle income residential community, with extensive waterfront and water view residential property.

Business Districts. The City's business districts include the Downtown/Waterfront, Highway 99, Westgate, Five Corners, Firdale Village, and Perrinville.

Downtown shops and galleries highlight the contemporary, offering everything from best-seller books, fine art, gifts, travel supplies, gourmet food, garden supplies, to the latest in clothing styles, shoes, jewelry, and unique housewares. Restaurants, cafes, and bistros offer dining experiences near the center of town and beachfront eateries feature scenic views of Puget Sound, the Olympic Mountains, and magnificent sunsets. One of a kind coffee shops, wine bars and cuisine from around the world offer many choices - from a quick break to relaxed dining. The Harbor Square shopping area offers 60 businesses, including an athletic club and a hotel.

More shopping and dining can be found along Highway 99 and in the neighborhood commercial districts of Westgate, Five Corners, Firdale Village and Perrinville.

Healthcare. Swedish Edmonds Hospital, which originally opened in 1964 is a full service facility licensed for 217, staffed by 450+ physicians and specialists, and employs 1,400+ other staff including clinical and non-clinical personnel. Prior to joining Swedish, the Edmonds hospital (formerly known as Stevens Hospital) was governed by the Public Hospital District No. 2 of Snohomish County. The District's Board of Commissioners no longer oversees the day-to-day operations at Swedish/Edmonds, but is still involved in some of the major decisions. It also manages the Verdant Health Commission, formerly South Snohomish County Commission for Health, to promote good health in the surrounding communities. In April of 2013, Swedish opened the Swedish Cancer Institute Facility on the Edmonds Campus, and made an investment in a Robotic Assisted da Vinci® Surgical System.

Transportation. The Edmonds/Kingston ferry connects south Snohomish County and north King County with the Kitsap Peninsula and, via the Hood Canal Bridge, the Olympic Peninsula. A Burlington Northern

Railroad line runs adjacent to the Edmonds' shoreline and is used for Sound Transit Commuter and Amtrak passenger rail service and moving freight. Community Transit provides local and commuter bus service.

Waterfront. The Edmonds waterfront area includes four public beaches, a public fishing pier, off-leash dog area, and the oldest underwater park on the West Coast and Port. The 950-foot long fishing pier, located just south of the ferry terminal, includes benches, lighting and bait and cleaning areas, and is open year-round, 24 hours a day. Edmonds Underwater Park, the oldest of its kind on the West Coast, is located just north of the ferry terminal. The 32-acre park was dedicated as a marine preserve in 1971, and provides divers with a number of underwater structures and a wide variety of fish and plant life to explore.

The Port of Edmonds operates a marina with approximately 729 moorage slips in the water and 350 spaces for dry boat storage. The marina provides guest moorage, public launching and parking facilities, a 35-ton travelift, a pressure washing facility, and a workyard. The port's charter fishing fleet attracts more than 10,000 customers annually, making it the third largest in the State.

Parks and Art. Residents and visitors can walk along an award winning waterfront walkway, access four public beaches, swim at outdoor Yost pool, use an the Off Leash Area for their dogs, go to a summer concerts at downtown City Park, take a picnic and enjoy views from public parks and beaches, take self-guided walking tours of public art, view murals in the downtown area, attend an annual Arts Festival and Third Thursday Artwalks, and attend performing art events at Edmonds Center for the Arts, and live theatre at Wade James and Phoenix Theaters.

Requests for Information

The City's financial statements are designed to provide users with a general overview of the City's finances as well as to demonstrate the City's accountability to its citizens, investors, creditors, and other customers. If you have a question about the report, please contact the Finance Director, 121 Fifth Avenue North, Edmonds, Washington, WA 98020, (425) 771-0240.

CITY OF EDMONDS, WASHINGTON
STATEMENT OF NET POSITION
DECEMBER 31, 2013

	PRIMARY GOVERNMENT			COMPONENT UNIT -
	GOVERNMENTAL	BUSINESS-TYPE	TOTAL	EDMONDS PUBLIC
	ACTIVITIES	ACTIVITIES		FACILITIES DISTRICT
ASSETS:				
CASH AND CASH EQUIVALENTS (Note 3)	\$ 17,829,418	\$ 23,452,940	\$ 41,282,358	\$ 108,407
CASH WITH OUTSIDE AGENCIES	22,764	-	22,764	-
INVESTMENTS (Note 3)	3,459,532	-	3,459,532	5,224
RECEIVABLES:				
TAXES	311,379	-	311,379	-
CUSTOMER ACCOUNTS	771,516	2,426,014	3,197,530	29,721
COURT RECEIVABLE	612,816	-	612,816	-
OTHER RECEIVABLES	-	-	-	46,181
SPECIAL ASSESSMENTS	32,117	-	32,117	-
INTEREST ON INVESTMENT	15,851	-	15,851	-
DUE FROM OTHER GOVERNMENTAL UNITS	3,075,224	807,122	3,882,346	58,721
DUE FROM COMPONENT UNIT	225,000	-	225,000	-
MATERIALS AND SUPPLIES INVENTORY	82,806	108,931	191,737	3,372
PREPAYMENTS	-	-	-	58,556
RESTRICTED ASSETS:				
CASH AND CASH EQUIVALENTS (Note 3)	-	1,826,677	1,826,677	130,856
SPECIAL ASSESSMENTS	70,190	-	70,190	-
DUE FROM COMPONENT UNIT-LONG-TERM	5,251,494	-	5,251,494	-
INVESTMENT IN JOINT VENTURE	1,368,165	-	1,368,165	-
DEPRECIABLE CAPITAL ASSETS (NET OF				
ACCUMULATED DEPRECIATION): (Note 9)	47,838,124	62,045,270	109,883,394	10,072,702
NON-DEPRECIABLE CAPITAL ASSETS	23,205,068	13,261,273	36,466,341	3,444,885
TOTAL ASSETS	104,171,464	103,928,227	208,099,691	13,958,625
DEFERRED OUTFLOW OF RESOURCES	-	192,700	192,700	-
LIABILITIES:				
ACCOUNTS PAYABLE	597,684	691,851	1,289,535	31,523
WAGES AND BENEFITS PAYABLE	965,265	215,625	1,180,890	52,921
INTERNAL BALANCES	(167,800)	167,800	-	-
DUE TO OTHER GOVERNMENTAL UNITS	-	182,723	182,723	-
OTHER LIABILITIES PAYABLE	105,553	128,730	234,283	-
PAYABLE FROM RESTRICTED ASSETS:				
ACCRUED INTEREST	28,241	104,210	132,451	20,977
DEPOSITS	-	7,098	7,098	112,858
UNEARNED REVENUE	-	-	-	312,875
UNAMORTIZED PREMIUM / DISCOUNT	-	481,279	481,279	6,453
BONDS AND OTHER DEBT PAYABLE:				
NET PENSION OBLIGATION	218,986	-	218,986	-
NET OTHER POST EMPLOYMENT OBLIGATION	741,671	-	741,671	-
DUE WITHIN ONE YEAR (Note 14)	4,103,060	1,509,442	5,612,502	417,618
DUE IN MORE THAN ONE YEAR (Note 14)	11,967,473	31,975,646	43,943,119	8,551,111
TOTAL LIABILITIES	18,560,133	35,464,404	54,024,537	9,506,336
DEFERRED INFLOW OF RESOURCES	169,338	82,098	251,436	-
NET POSITION:				
NET INVESTMENT IN CAPITAL ASSETS	61,978,358	51,071,627	113,049,985	4,566,408
RESTRICTED FOR:				
DEBT SERVICE	57,161	1,826,677	1,883,838	572,378
PUBLIC SAFETY	91,432	-	91,432	-
TRANSPORTATION	696,354	-	696,354	-
CULTURE AND RECREATION	3,897,644	-	3,897,644	-
ECONOMIC ENVIRONMENT	162,900	-	162,900	-
CONSTRUCTION	-	9,305,126	9,305,126	-
OTHER PURPOSES	17,989	7,098	25,087	-
UNRESTRICTED NET POSITION	18,540,155	6,363,897	24,904,052	(686,497)
TOTAL NET POSITION	85,441,993	\$ 68,574,425	\$ 154,016,418	\$ 4,452,289

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

CITY OF EDMONDS, WASHINGTON
STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED DECEMBER 31, 2013

Page 1 of 2

	EXPENSES	PROGRAM REVENUES		
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS
<u>FUNCTIONS / PROGRAMS:</u>				
PRIMARY GOVERNMENT:				
GOVERNMENTAL ACTIVITIES:				
GENERAL GOVERNMENT	\$ 7,586,841	\$ 4,835,459	\$ -	\$ 187,566
PUBLIC SAFETY	17,604,167	1,134,073	28,704	-
TRANSPORTATION	4,445,078	885,420	824,909	2,173,145
PHYSICAL ENVIRONMENT	1,502,516	226,192	34,000	-
CULTURE AND RECREATION	3,941,859	960,733	78,451	205,864
ECONOMIC ENVIRONMENT	1,072,629	938,927	6,832	-
HEALTH AND HUMAN SERVICES	8,558	169,071	111	-
INTEREST ON LONG-TERM DEBT	191,155	-	-	-
TOTAL GOVERNMENTAL ACTIVITIES	36,352,803	9,149,875	973,007	2,566,575
BUSINESS-TYPE ACTIVITIES:				
COMBINED UTILITY OPERATION	15,845,552	16,630,405	161,294	1,447,298
TOTAL BUSINESS-TYPE ACTIVITIES	15,845,552	16,630,405	161,294	1,447,298
TOTAL PRIMARY GOVERNMENT	\$ 52,198,355	\$ 25,780,280	\$ 1,134,301	\$ 4,013,873
COMPONENT UNIT:				
EDMONDS PUBLIC FACILITIES DISTRICT	\$ 2,578,265	\$ 1,020,693	\$ 820,630	\$ -
TOTAL COMPONENT UNIT	\$ 2,578,265	\$ 1,020,693	\$ 820,630	\$ -

GENERAL REVENUES:

TAXES:

PROPERTY

RETAIL SALES AND USE

INTERFUND UTILITY

UTILITY

EXCISE

PAYMENTS FROM COMPONENT UNIT

INVESTMENT EARNINGS

MISCELLANEOUS

GAIN (LOSS) ON SALE OF CAPITAL ASSETS

TRANSFERS (Note 7)

TOTAL GENERAL REVENUES

CHANGE IN NET POSITION

NET POSITION - BEGINNING

PRIOR PERIOD ADJUSTMENT (Note 19)

ADJUSTMENT FOR ADOPTION OF GASB 62 and GASB 65 (NOTE 1)

NET POSITION - ENDING

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

PRIMARY GOVERNMENT			COMPONENT UNIT
NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION			
GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITY	TOTAL	EDMONDS PUBLIC FACILITIES DISTRICT

\$ (2,563,816)	\$ -	\$ (2,563,816)
(16,441,390)	-	(16,441,390)
(561,604)	-	(561,604)
(1,242,324)	-	(1,242,324)
(2,696,811)	-	(2,696,811)
(126,870)	-	(126,870)
160,624	-	160,624
(191,155)	-	(191,155)
(23,663,346)	-	(23,663,346)

-	2,393,445	2,393,445
-	2,393,445	2,393,445
(23,663,346)	2,393,445	(21,269,901)

	\$ (736,942)
	(736,942)

13,474,665	-	13,474,665	-
6,104,618	-	6,104,618	452,935
1,709,124	-	1,709,124	-
4,722,333	-	4,722,333	-
2,120,330	-	2,120,330	-
325,693	-	325,693	-
3,926	31,492	35,418	115
125,781	38,039	163,820	1,000
46,987	-	46,987	-
1,067	(1,067)	-	-
28,634,524	68,464	28,702,988	454,050
4,971,178	2,461,909	7,433,087	(282,892)
79,697,066	66,431,919	146,128,985	4,800,754
(109,906)	-	(109,906)	-
883,655	(319,403)	564,252	(65,573)
\$ 85,441,993	\$ 68,574,425	\$ 154,016,418	\$ 4,452,289

CITY OF EDMONDS, WASHINGTON
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2013

	GENERAL FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS:			
CURRENT ASSETS:			
CASH AND CASH EQUIVALENTS	\$ 8,784,300	\$ 3,998,015	\$ 12,782,315
INVESTMENTS	2,959,532	500,000	3,459,532
DEPOSITS WITH TRUSTEES	22,764	-	22,764
RECEIVABLES:			
TAXES	311,379	-	311,379
CUSTOMER ACCOUNTS	770,238	86	770,324
SPECIAL ASSESSMENTS	-	32,117	32,117
ACCRUED INTEREST RECEIVABLE	11,976	3,875	15,851
DUE FROM COMPONENT UNIT	5,476,494	-	5,476,494
INTERFUND RECEIVABLE (Note 7)	167,800	47,323	215,123
DUE FROM OTHER GOVERNMENTAL UNITS	1,722,885	1,350,910	3,073,795
SUPPLIES INVENTORY	686	-	686
LONG-TERM ASSETS:			
SPECIAL ASSESSMENTS - NON-CURRENT	-	70,190	70,190
TOTAL ASSETS	\$ 20,228,054	\$ 6,002,516	\$ 26,230,570
LIABILITIES AND FUND BALANCES:			
CURRENT LIABILITIES:			
ACCOUNTS PAYABLE	\$ 239,883	\$ 318,671	\$ 558,554
WAGES AND BENEFITS PAYABLE	907,453	43,083	950,536
INTERFUND PAYABLE (Note 7)	-	47,323	47,323
OTHER LIABILITIES PAYABLE	104,562	991	105,553
LONG-TERM LIABILITIES:			
UNEARNED REVENUE	5,815,358	105,800	5,921,158
TOTAL LIABILITIES	7,067,256	515,868	7,583,124
FUND BALANCES:			
NON-SPENDABLE:			
INVENTORY	686	-	686
RESTRICTED FOR:			
DEBT SERVICE	-	57,161	57,161
PUBLIC SAFETY	-	91,432	91,432
TRANSPORTATION	-	696,354	696,354
CULTURE AND RECREATION	-	3,897,644	3,897,644
ECONOMIC ENVIRONMENT	-	162,900	162,900
OTHER PURPOSES	-	17,303	17,303
COMMITTED TO:			
UTILITIES AND ENVIRONMENT	-	70,203	70,203
CULTURE AND RECREATION	-	431,932	431,932
OTHER PURPOSES	-	61,719	61,719
UNASSIGNED	13,160,112	-	13,160,112
TOTAL FUND BALANCES	13,160,798	5,486,648	18,647,446
TOTAL LIABILITIES AND FUND BALANCES	\$ 20,228,054	\$ 6,002,516	\$ 26,230,570

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

CITY OF EDMONDS, WASHINGTON
RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET POSITION
GOVERNMENTAL FUNDS
DECEMBER 31, 2013

Total governmental fund balances as reported on this statement	\$ 18,647,446
--	---------------

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 not reported in the funds. These assets consist of:

Land	\$ 14,530,663	
Construction in progress	8,674,405	
Subtotal: Non-depreciable capital assets	23,205,068	
Investment in joint venture	1,368,165	
Buildings	25,479,908	
Improvements other than buildings	17,194,861	
Infrastructure	57,951,819	
Machinery and equipment - general government	7,386,874	
Less: Accumulated depreciation	(60,175,338)	
Subtotal: Depreciable capital assets	47,838,124	
		72,411,357

Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.

Court receivable	612,816	
Deferred Inflow of resources for bond refunding	(169,338)	
		443,478

Internal service funds are used by management to charge the cost of equipment maintenance to individual funds. The assets and liabilities of these internal service funds are included in governmental activities in the statement of net position. Capital assets of \$1,808,513 are included in the capital asset adjustment above. Compensated absence liability of \$39,322 is included in the adjustment below ,

5,077,985

Some liabilities are not due and payable in the current period and therefore are not reported in the funds.

General obligation bonds	(11,919,474)	
Compensated absences (\$39,322 attributable to internal service funds)	(2,435,037)	
Capital contracts	(892,330)	
Public works trust fund loans	(823,692)	
Subtotal: Long-term debt payable	(16,070,533)	
Accrued interest payable	(28,241)	
Net pension obligation	(218,986)	
Net other post employment benefit obligation	(741,671)	
Unearned revenues reported in the Balance Sheet - Governmental Funds		
are not reported in the government-wide Statement of Net Position (Note 1)	5,921,158	
		(11,138,273)

Net position of government activities as reported on the statement of net position	\$ 85,441,993
--	---------------

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

CITY OF EDMONDS, WASHINGTON
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2013

	GENERAL FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES:			
TAXES:			
PROPERTY	\$ 13,564,947	\$ -	\$ 13,564,947
RETAIL SALES & USE	6,018,989	85,629	6,104,618
INTERFUND UTILITY	1,709,124	-	1,709,124
UTILITY	4,776,698	-	4,776,698
EXCISE	227,635	1,838,330	2,065,965
LICENSES AND PERMITS	1,858,866	81,132	1,939,998
INTERGOVERNMENTAL	962,671	2,420,990	3,383,661
CHARGES FOR SERVICES	4,572,679	1,682,747	6,255,426
FINES AND FORFEITURES	639,897	461	640,358
INVESTMENT EARNINGS	(11,372)	14,825	3,453
MISCELLANEOUS	444,983	587,731	1,032,714
TOTAL REVENUES	34,765,117	6,711,845	41,476,962
EXPENDITURES:			
CURRENT:			
GENERAL GOVERNMENT SERVICES	7,306,581	555	7,307,136
PUBLIC SAFETY	17,646,584	59,468	17,706,052
UTILITIES AND ENVIRONMENT	1,356,123	135,849	1,491,972
TRANSPORTATION	-	2,009,988	2,009,988
ECONOMIC ENVIRONMENT	859,668	18,145	877,813
MENTAL AND PHYSICAL HEALTH	8,558	-	8,558
CULTURE AND RECREATION	3,388,835	401,575	3,790,410
DEBT SERVICE:			
PRINCIPAL	1,010,608	918,139	1,928,747
INTEREST AND OTHER COSTS	186,091	203,155	389,246
CAPITAL OUTLAY	36,779	2,045,232	2,082,011
INTERGOVERNMENTAL AND OTHER PAYMENTS	180,000	-	180,000
TOTAL EXPENDITURES	31,979,827	5,792,106	37,771,933
EXCESS (DEFICIENCY) OF REVENUES			
OVER (UNDER) EXPENDITURES	2,785,290	919,739	3,705,029
OTHER FINANCING SOURCES (USES):			
INSURANCE RECOVERIES	854	13,119	13,973
TRANSFERS IN (Note 7)	12,797	1,418,626	1,431,423
TRANSFERS OUT (Note 7)	(325,052)	(1,105,304)	(1,430,356)
TOTAL OTHER FINANCING SOURCES AND USES	(311,401)	326,441	15,040
NET CHANGE IN FUND BALANCES	2,473,889	1,246,180	3,720,069
FUND BALANCES - BEGINNING	10,686,909	4,350,374	15,037,283
PRIOR PERIOD ADJUSTMENT	-	(109,906)	(109,906)
FUND BALANCES - ENDING	\$ 13,160,798	\$ 5,486,648	\$ 18,647,446

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

CITY OF EDMONDS, WASHINGTON
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES OF GOVERNMENT FUNDS TO THE STATEMENT OF ACTIVITIES**
FOR THE YEAR ENDED DECEMBER 31, 2013

Net change in fund balances per the Statement of Revenues, Expenditures and Changes in Fund Balance	\$ 3,720,069
---	--------------

Amount reported as change in net position in the Statement of Activities are different because:

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 outlay is exceeded by depreciation and amortization in the current period.

Capital outlays	\$ 2,905,690	
Internal service fund - capital outlays	146,856	
Current year depreciation (includes \$365,278 for internal service fund)	(4,046,394)	
Adjustment in investment in joint venture	(38,604)	
		(1,032,452)

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds:

Property taxes receivable	(90,284)	
Other unearned revenue	(71,416)	
Court receivable	(50,742)	
		(212,442)

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of long-term debt is an expenditure in the governmental funds, yet the repayment reduces long-term liabilities in the statement of net position. This is the amount by which repayments exceeded proceeds.

Amortization of Bond Refunding	9,408	
Long-term debt repayments	1,928,748	
		1,938,156

Internal service funds are used by management to charge the costs of equipment rental to individual funds. The net revenue (expense) of this internal service fund is reported with governmental activities. Capital activity of \$(218,422) is included in the capital asset adjustment above.

529,303

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

Accrued interest expense	4,155	
Net pension obligation	(10,235)	
Net other post-employment benefit obligation	(295,715)	
Voluntary Separation Incentive Program	101,163	
Accrued compensating absence expense (\$212,242 total expenditure plus \$16,934 attributable to internal service funds)	229,176	
		28,544

Change in net position on the Statement of Activities	\$ 4,971,178
---	--------------

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

CITY OF EDMONDS, WASHINGTON
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2013

	ORIGINAL BUDGET (GAAP BASIS)	FINAL BUDGET (GAAP BASIS)	ACTUAL RESULTS	VARIANCE WITH FINAL BUDGET
REVENUES:				
TAXES:				
PROPERTY	\$ 13,472,494	\$ 13,472,494	\$ 13,564,947	\$ 92,453
RETAIL SALES & USE	5,442,273	5,442,273	6,018,989	576,716
INTERFUND UTILITY	1,649,213	1,649,213	1,709,124	59,911
UTILITY	4,897,046	4,897,046	4,776,698	(120,348)
EXCISE	212,350	212,350	227,635	15,285
LICENSES AND PERMITS	1,548,173	1,548,173	1,858,866	310,693
INTERGOVERNMENTAL	589,557	879,404	962,671	83,267
CHARGES FOR SERVICES	4,148,225	4,176,428	4,572,679	396,251
FINES AND FORFEITURES	526,342	526,342	639,897	113,555
INVESTMENT EARNINGS	19,879	16,879	(11,372)	(28,251)
MISCELLANEOUS	317,792	340,391	444,983	104,592
TOTAL REVENUES	32,823,344	33,160,993	34,765,117	1,604,124
EXPENDITURES:				
CURRENT:				
GENERAL GOVERNMENT	8,175,257	8,555,608	7,306,581	1,249,027
PUBLIC SAFETY	17,562,911	17,717,231	17,646,584	70,647
UTILITIES AND ENVIRONMENT	1,394,458	1,418,188	1,356,123	62,065
ECONOMIC ENVIRONMENT	897,958	921,668	859,668	62,000
MENTAL AND PHYSICAL HEALTH	11,000	12,000	8,558	3,442
CULTURE AND RECREATION	3,360,903	3,442,517	3,388,835	53,682
DEBT SERVICE				
PRINCIPAL	1,227,259	1,010,609	1,010,608	1
INTEREST AND OTHER COSTS	190,614	190,614	186,091	4,523
CAPITAL OUTLAY	45,000	215,000	36,779	178,221
INTERGOVERNMENTAL AND OTHER PAYMENTS	190,000	190,000	180,000	10,000
TOTAL EXPENDITURES	33,055,360	33,673,435	31,979,827	1,693,608
EXCESS (DEFICIENCY) OF REVENUES				
OVER (UNDER) EXPENDITURES	(232,016)	(512,442)	2,785,290	3,297,732
OTHER FINANCING SOURCES (USES):				
INSURANCE RECOVERIES	-	-	854	854
TRANSFERS IN (Note 7)	1,221,621	1,209,332	12,797	(1,196,535)
TRANSFERS OUT (Note 7)	(1,096,535)	(1,575,185)	(325,052)	1,250,133
TOTAL OTHER FINANCING SOURCES AND USES	125,086	(365,853)	(311,401)	54,452
 NET CHANGE IN FUND BALANCES	 (106,930)	 (878,295)	 2,473,889	 3,352,184
 FUND BALANCES - BEGINNING	 10,103,104	 10,686,910	 10,686,909	 (1)
FUND BALANCES - ENDING	\$ 9,996,174	\$ 9,808,615	\$ 13,160,798	\$ 3,352,183

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

CITY OF EDMONDS, WASHINGTON
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2013

	421 / 422 / 423 / 424 COMBINED UTILITY FUNDS	GOVERNMENTAL ACTIVITIES INTERNAL SERVICE FUNDS
ASSETS:		
CURRENT ASSETS:		
CASH AND CASH EQUIVALENTS	\$ 23,452,940	\$ 5,047,103
CUSTOMER ACCOUNTS	2,426,014	1,192
DUE FROM OTHER GOVERNMENTAL UNITS	807,122	1,429
INVENTORY	108,931	82,120
TOTAL CURRENT ASSETS	26,795,007	5,131,844
LONG-TERM ASSETS:		
RESTRICTED CASH, BOND RESERVES	1,826,677	-
CAPITAL ASSETS:		
LAND	1,257,106	-
DEPRECIABLE CAPITAL ASSETS (NET OF ACCUMULATED DEPRECIATION)	61,757,293	1,808,513
CONSTRUCTION IN PROGRESS	12,004,167	-
INTANGIBLE ASSETS	287,977	-
TOTAL CAPITAL ASSETS (NET OF A/D)	75,306,543	1,808,513
TOTAL LONG-TERM ASSETS	77,133,220	1,808,513
TOTAL ASSETS	103,928,227	6,940,357
DEFERRED OUTFLOW OF RESOURCES	192,700	-
LIABILITIES:		
CURRENT LIABILITIES:		
ACCOUNTS PAYABLE	691,851	39,130
WAGES AND BENEFITS PAYABLE	215,625	54,062
COMPENSATED ABSENCES	426,327	-
INTERFUND PAYABLES	167,800	-
PUBLIC WORKS TRUST FUND LOANS PAYABLE-CURRENT	221,521	-
REVENUE BONDS PAYABLE-CURRENT (NET OF UNAMORTIZED PREMIUM/DISCOUNT)	712,720	-
GENERAL OBLIGATION BONDS PAYABLE-CURRENT	227,237	-
ACCRUED INTEREST	104,210	-
DEPOSITS	7,098	-
DUE TO OTHER GOVERNMENTAL UNITS	182,723	-
OTHER LIABILITIES PAYABLE	128,730	-
TOTAL CURRENT LIABILITIES	3,085,842	93,192
LONG-TERM LIABILITIES:		
UNAMORTIZED PREMIUM / DISCOUNT	481,279	-
LOANS PAYABLE	1,964,862	-
REVENUE BONDS PAYABLE	27,060,000	-
GENERAL OBLIGATION BONDS PAYABLE	2,872,421	-
TOTAL LONG-TERM LIABILITIES	32,378,562	-
TOTAL LIABILITIES	35,464,404	93,192
DEFERRED INFLOW OF RESOURCES	82,098	-
NET POSITION:		
INVESTED IN CAPITAL ASSETS, NET OF RELATED DEBT	51,071,627	1,808,513
RESTRICTED FOR:		
DEBT SERVICE	1,826,677	-
CUSTOMER DEPOSITS	7,098	-
CONSTRUCTION	9,305,126	-
UNRESTRICTED	6,363,897	5,038,652
TOTAL NET POSITION	\$ 68,574,425	\$ 6,847,165

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

CITY OF EDMONDS, WASHINGTON
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2013

	421 / 422 / 423 / 424 COMBINED UTILITY FUNDS	GOVERNMENTAL ACTIVITIES INTERNAL SERVICE FUNDS
OPERATING REVENUES:		
CHARGES FOR SERVICES	\$ 16,309,171	\$ 1,369,031
OTHER OPERATING REVENUE	321,234	-
TOTAL OPERATING REVENUES	16,630,405	1,369,031
OPERATING EXPENSES:		
PERSONNEL SERVICES	4,121,098	276,527
OPERATIONS & MAINTENANCE	7,796,177	454,119
PROFESSIONAL SERVICES	533,508	2,172
INSURANCE	232,106	34,153
DEPRECIATION/AMORTIZATION	2,736,188	365,278
TOTAL OPERATING EXPENSES	15,419,077	1,132,249
OPERATING INCOME (LOSS)	1,211,328	236,782
NON-OPERATING REVENUE (EXPENSE):		
INTERGOVERNMENTAL	359,923	-
INVESTMENT EARNINGS	31,492	8,666
OTHER NON-OPERATING REVENUES	38,039	32,419
GAIN (LOSS) ON SALE OF CAPITAL ASSETS	-	33,014
INTEREST EXPENSE	(426,475)	-
TOTAL NON-OPERATING REVENUE (EXPENSE)	2,979	74,099
INCOME (LOSS) BEFORE CONTRIBUTIONS & TRANSFERS	1,214,307	310,881
CAPITAL CONTRIBUTIONS	1,248,669	-
TRANSFERS OUT (Note 7)	(1,067)	-
CHANGE IN NET POSITION	2,461,909	310,881
TOTAL NET POSITION BEGINNING OF YEAR	66,431,919	6,536,284
ADJUSTMENT FOR ADOPTION OF GASB 65 (NOTE 1)	(319,403)	-
TOTAL NET POSITION END OF YEAR	\$ 68,574,425	\$ 6,847,165

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

CITY OF EDMONDS, WASHINGTON
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2013

Page 1 of 2

	421 / 422 / 423 / 424 COMBINED UTILITY FUNDS	GOVERNMENT ACTIVITIES INTERNAL SERVICE FUNDS
CASH FLOWS FROM OPERATING ACTIVITIES:		
CASH RECEIVED FROM USERS	\$ 16,514,093	1,369,031
CASH PAID TO SUPPLIERS	(8,706,744)	(511,017)
CASH PAID FOR INVENTORY	(9,364)	(599)
CASH PAID TO EMPLOYEES	(4,084,871)	(255,929)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	3,713,114	601,486
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
INTERFUND LOAN	10,435	-
OPERATING GRANT RECEIVED	359,923	-
NET CASH PROVIDED (USED) BY NON- CAPITAL FINANCING ACTIVITIES	370,358	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
PROCEEDS FROM SALE OF EQUIPMENT	-	33,014
PURCHASE OF CAPITAL ASSETS	(10,200,433)	(146,857)
CONTRIBUTED CAPITAL	1,246,535	-
PROCEEDS FROM INSURANCE SETTLEMENT	38,039	-
PREMIUM & BOND ISSUANCE COSTS	-	32,419
PRINCIPAL PAYMENT ON DEBT	(956,569)	-
INTEREST PAYMENT ON DEBT	(184,397)	-
OPERATING TRANSFERS IN	1,067	-
PROCEEDS FROM CAPITAL DEBT	15,010,000	-
NET CASH PROVIDED (USED) FOR CAPITAL AND RELATED FINANCING ACTIVITIES	4,954,242	(81,424)
CASH FLOW FROM INVESTING ACTIVITIES:		
INTEREST RECEIVED	31,492	8,666
NET CASH PROVIDED (USED) IN INVESTING ACTIVITIES	31,492	8,666
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	9,069,206	528,728
CASH AND CASH EQUIVALENTS-BEGINNING OF YEAR	16,210,411	4,518,375
CASH AND CASH EQUIVALENTS-END OF YEAR	<u>\$ 25,279,617</u>	<u>\$ 5,047,103</u>
CASH AT END OF YEAR CONSISTS OF:		
CASH AND CASH EQUIVALENTS	23,452,940	\$ 5,047,103
RESTRICTED CASH-BOND PAYMENTS	1,826,677	-
TOTAL CASH	<u>\$ 25,279,617</u>	<u>\$ 5,047,103</u>

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

CITY OF EDMONDS, WASHINGTON
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2013

Page 2 of 2

	421 / 422 / 423 / 424 COMBINED UTILITY FUNDS	GOVERNMENT ACTIVITIES INTERNAL SERVICE FUNDS
--	---	---

**RECONCILIATION OF NET OPERATING INCOME TO NEW CASH
 PROVIDED BY OPERATING ACTIVITIES**

OPERATING INCOME (LOSS)	\$ 1,211,327	\$ 236,782
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
DEPRECIATION	2,736,187	365,278
ASSET (INCREASES) DECREASES :		
DUE FROM OTHER GOVERNMENTAL UNITS	(217,824)	129
MISCELLANEOUS A/R-REVENUE	(166,072)	-
INVENTORY	(9,364)	(599)
LIABILITY INCREASES (DECREASES) :		
ACCOUNTS & VOUCHERS PAYABLE	129,887	(20,702)
DEPOSITS PAYABLE	3,799	-
WAGES & BENEFITS PAYABLE	36,227	20,598
DUE TO GOVERNMENTAL UNIT	45,961	-
OTHER LIABILITIES	(57,014)	-
TOTAL ADJUSTMENTS	2,501,787	364,704
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ 3,713,114</u>	<u>\$ 601,486</u>

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

**SCHEDULE OF NON-CASH CAPITAL AND RELATED
 FINANCING ACTIVITIES:**

ADJUSTMENT FOR ADOPTION OF GASB 65 (NOTE 1)	319,403	-
TOTAL NON-CASH ACTIVITIES	<u>319,403</u>	<u>-</u>

CITY OF EDMONDS, WASHINGTON
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
DECEMBER 31, 2013

		617 FIREMEN'S PENSION FUND
ASSETS:		
CASH AND CASH EQUIVALENTS	\$	195,087
TOTAL ASSETS	\$	195,087
LIABILITIES:		
CURRENT PAYABLES	\$	4,073
TOTAL LIABILITIES		4,073
NET POSITION:		
HELD IN TRUST FOR PENSION BENEFITS		
AND OTHER PURPOSES	\$	191,014

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

CITY OF EDMONDS, WASHINGTON
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2013

		617 FIREMEN'S PENSION FUND
ADDITIONS:		
FIRE INSURANCE PREMIUMS	\$	49,492
INVESTMENT EARNINGS		354
TOTAL ADDITIONS		49,846
DEDUCTIONS:		
BENEFIT PAYMENTS		74,382
PROFESSIONAL SERVICES		1,169
TOTAL DEDUCTIONS		75,551
CHANGE IN NET POSITION		(25,705)
NET POSITION - BEGINNING		216,719
NET POSITION - ENDING	\$	191,014

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of the City of Edmonds, which conform to generally accepted accounting principles for governments as prescribed by the Governmental Accounting Standards Board (GASB), are regulated by the Washington State Auditor's Office. The City's significant accounting policies are described below.

A. REPORTING ENTITY

The City of Edmonds was incorporated in 1890 and operates under a Council/Mayor form of government. The City Council is composed of seven members elected at large who each serve a four-year term. The Mayor is elected at large and serves a four-year term. The Mayor is responsible for all City affairs. The City provides a full range of general government services: including public safety, streets, parks and recreation, planning and zoning, permits and inspection, general administration, and water, sewer, storm water and wastewater treatment utilities.

The accompanying financial statements include all funds, agencies, and boards controlled by or dependent on the City. Criteria used to determine agency dependence on the City were: selection of the governing body, budget adoption, taxing authority, outstanding debt service secured by City revenues or general obligations, City obligation to finance possible deficits, or receipt of significant City subsidies.

Discretely Presented Component Unit - The Edmonds City Council formed the Edmonds Public Facilities District (PFD) on April 24, 2001 by Ordinance. The PFD was created under the authority provided by the legislature during the 1999 State legislative session, since codified as RCW 35.57. The purpose of the PFD is to construct and operate a "regional center" in the City of Edmonds. RCW 35.57 defines a regional center as a conference, convention or special events center along with related parking.

A five member board governs the PFD and is appointed to four-year terms by the Edmonds City Council. The PFD has authority under state law to issue debt, levy certain taxes, and enter into contracts. In 2002 the City issued Limited Tax General Obligation Bonds for the acquisition, renovation and remodeling of a Performing Arts Center by the PFD in the amount of \$7,015,000. These proceeds were transferred to the PFD. The bonds, which were refinanced in 2012, are a debt of the City and not the PFD; however the PFD is obligated by inter-local agreement to pay the entire amount of the PFD's portion of the 2012 debt service over the life of the bonds. Payment is not limited to sales tax revenue.

In 2008 the PFD issued bonds to retire short-term debt it had issued to complete construction of the Edmonds Center for the Arts. The PFD is currently not able to meet its debt service obligation on the 2008 bonds. However, the City guarantees repayment of those bonds through a Contingent Loan Agreement. Advances by the City to the PFD for debt service on the 2008 bonds are shown in the City's Statement of Net Position as a Due from Component Unit. More information about the PFD, including complete financial statements, can be obtained from Edmonds Performing Arts Center, c/o Joe McIlwain, 401 Fourth Ave. N. Edmonds, WA 98020.

Blended Component Unit - The Edmonds Transportation Benefit District is governed by the seven-member board appointed by the City of Edmonds Council. Although it is legally separated from the City of Edmonds, the Edmonds Transportation Benefit District is reported as if it were part of the primary government because its sole purpose is to finance and construct City of Edmonds streets.

Joint Ventures - A joint venture is an organization that results from a contractual arrangement and is owned, operated, or governed by two or more participants as a separate activity. In addition to joint control, each participant must have either an ongoing financial interest or an ongoing financial responsibility.

The City participates in two separate joint ventures. The first is a single joint venture with Snohomish County and other local governments in the Snohomish County Emergency Radio System (SERS). The second is a single joint venture with six other cities and Snohomish County Fire District 1 in the Southwest Snohomish County Public Safety Communication Agency (SNOCOM). See note 17 for additional information.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e. the statement of Net Position and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component units. Government 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. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

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. 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 of a particular function or segment. The City has allocated certain indirect costs that are included in the program expense reported for individual functions and activities. Taxes and other items not properly included among program revenues are reported as general revenues.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's water and sewer function and other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds. The fiduciary funds are not included in the government-wide financial statements. Major individual funds are reported as separate columns, while the remaining funds are combined for presentation purposes in the governmental funds statements and the proprietary funds statements.

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

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. Each fund is accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenue, and expenditures or expenses, as appropriate. The City resources are allocated to, and accounted for in, individual funds according to the purpose for which they are spent and how they are controlled.

The *basis of accounting* refers to the timing of when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements.

The government-wide financial statements (i.e. the Statement of Net Position and the Statement of Activities) report information on all of the non-fiduciary activities of the primary government and its component units. Government 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. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The Statement of Net Position presents the reporting entity's nonfiduciary assets and liabilities, with the difference reported as Net Position. Net Position is reported in three categories:

- Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.
- Restricted Net Position result when constraints placed on net position use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation.
- Unrestricted Net Position consists of Net Position that does not meet the definition of the two preceding categories. Unrestricted Net Position often is designated to indicate that management does not consider them available for general operations. Unrestricted Net Position often has constraints on resources that are imposed by management, but can be modified or removed.

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. 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 of a particular function or segment. The City has allocated certain indirect costs that are included in the program expense reported for individual functions and activities. Taxes and other items not properly included among program revenues are reported as general revenues.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary and pension trust fund financial statements. Interfund services provided and used are not eliminated in the process of consolidation. Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting.

The *modified accrual basis* of accounting is followed in all governmental and permanent funds of the City. Under the modified accrual basis of accounting, revenues are recognized when measurable and available. Revenues are generally considered available if they are collected within the current period or soon enough thereafter (60 days) to pay current liabilities. For derived tax revenues, such as sales tax and utility business and occupation taxes, revenues are recognized in the period when the underlying exchange has occurred. For imposed non-exchange taxes, such as property taxes, revenues are recognized when the use of resources is permitted, or when resources are available. Grant revenue is recognized in the period in which the

expenditure occurs and the eligibility requirements have been met. Non-exchange transactions, such as contributions, are recognized when the donation eligibility requirements have been satisfied. Those specific major revenue sources accrued are:

The *accrual basis* of accounting is followed in all proprietary, agency, and pension trust funds. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when incurred.

Major Governmental Funds - The General Fund is the general operating fund of the City and accounts for all activities not required to be accounted for in some other fund.

Proprietary Fund - The Combined Utility Operation Fund accounts for the provision of water, sewer, storm water and wastewater treatment services to the residents of the City and some residents of Mountlake Terrace, Lynnwood, Woodway, Olympic View Water District and Ronald Wastewater District. All activities necessary to provide such services are accounted for in this fund, including but not limited to, administration, financing, and related debt service, billing, and collection.

The proprietary fund statements distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses result from providing services and delivering goods in connection with principal ongoing operations. The principal operating revenues of the City's utility fund are charges to customers for sales and service. The City also recognizes as operating revenue the portion of utility connection fees intended to recover the cost of connecting new customers to the water and sewer systems. Operating expenses for enterprise funds include operating and maintenance costs, employee benefit expenses, contracted services, insurance and depreciation on capital assets. All other revenues and expenses are reported as non-operating revenues and expenses.

Internal Service and Fiduciary Funds - The Equipment Rental Fund is an internal service fund used to account for the Fleet Maintenance Division. The Fleet Maintenance Division is responsible for maintaining the City's vehicle fleet.

Fiduciary funds are used to account for City assets held in a trustee capacity or as an agent for individuals, private organizations, and other governments. These funds share characteristics with both the government and proprietary funds and therefore, as described below, use the measurement focus and basis of accounting most appropriate to their specific operations.

The Firemen's Pension Fund accounts for a single employer defined benefit system established under state law to provide benefits to eligible firefighters. Although this pension plan has subsequently been replaced by the State Law Enforcement Officers and Firefighters pension system, firefighters hired prior to March 1, 1970 continue to be eligible for benefits under its provisions. Revenues received by the fund include proceeds of a state-imposed tax on fire insurance premiums and as needed, allocations from the City's annual property tax levy based on actuarial estimates.

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

D. BUDGET AND BUDGETARY ACCOUNTING

Scope of Budget - Budgets are adopted at the fund level and this constitutes the legal level of control where expenditures may not exceed appropriations. Purely as a management tool, budgets are broken out to departments, activities and expense types. Transfers or revisions within funds are allowed, but only the City Council can increase or decrease a fund's budget, which is done by City ordinance.

The City adopts the budget for governmental funds on the modified accrual basis and all unexpended appropriations lapse at year-end. Budgetary accounts are integrated in fund ledgers for all budgeted funds, but financial statements include budget-to-actual comparisons for general funds only. Proprietary fund budgets are "management budgets" and are not legally required to be reported.

Procedures for Adopting the Original Budget - The budget process steps are: 1) prior to November 1st, the Mayor submits a proposed annual budget to the City Council. It is based on Council-established priorities and estimates provided by City departments during the preceding months, and balanced with revenue estimates made by the Mayor; 2) the City Council conducts public hearings on the proposed budget in November and December; 3) the Council makes its adjustments to the proposed budget and adopts by ordinance a final balanced annual budget no later than December 31; 4) the final annual budget as adopted is published and distributed by the end of the year. Limited copies of the budget book can be obtained from City of Edmonds, c/o City of Edmonds Finance Department, 121 5th Ave. N. Edmonds, WA 98020, or by visiting our web site at www.edmondswa.gov.

E. ASSETS, LIABILITIES, AND FUND EQUITY

Cash and Equity in Pooled Investments - The City of Edmonds invests all short-term cash surpluses. The City considers all highly-liquid assets, including investment in the Washington State's Local Government Investment Pool, and short-term investments with a maturity of three months or less when purchased to be cash equivalents.

Investments - Investments are presented in the financial statements at fair value based on quoted market prices. The City's position in the Local Government Investment Pool is the same as the value of the pool shares. Pool investments are reported as Cash and Cash Equivalents. Interest earned on the pooled investments is allocated to individual funds at the end of each month on the basis of their average daily cash balance during the preceding month. Investments are also held separately by several funds with interest earned directly for each fund's benefit. The City holds most investments to maturity. For reporting, all funds' interest earnings are recognized in the accounting period in which they become available and measurable. Additional deposit and investment information is presented in Note 3.

Inventories - Inventories are generally valued using the weighted-average cost method and consist of expendable materials and supplies. Governmental fund types use the consumption method, where cost is recognized as an expenditure when the inventory is consumed. Inventories in the proprietary funds use two separate methods. The combined utility fund inventories are expensed as consumed. The internal service fund inventories are expensed when purchased with the inventories adjusted at year-end.

Receivables - Property taxes - The County Treasurer collects annual property taxes levied in the county for all taxing authorities. Taxes are levied on January 1 for property value listed as of May 31.

The County Assessor establishes assessed values at 100 percent of fair market value. Beginning with the 2004 assessment for taxes payable in 2005, all property is appraised annually and updated to reflect the current market value. This will result in smaller increases in assessed value than property owners experienced in the past with the 4-year revaluation cycle. It also allows property values to be adjusted downward if there is a change in the market, instead of the value being "fixed" for a 4-year period.

Due to voter approval of Initiative 747 in November 2001, levy increases are limited to the lesser of the implicit price deflator for personal consumption expenditures for the 12-month period ending in July of each year, or 1%. Any increase above this limit requires voter approval. Property taxes levied by the County Assessor and collected by the County Treasurer become a lien on the first day of the levy year and may be paid in two equal payments if the total exceeds \$10. The first half is due on April 30 and the balance is due October 31. Delinquent taxes bear interest at 12 percent and are subject to additional penalties if not paid as scheduled. Washington State Constitution and Washington State law, RCW 84.55.010, limit the rate.

Property tax is recorded as a receivable and revenue when levied. Property tax collected in advance of the fiscal year to which it applies is recorded as unearned revenue and recognized as revenue of the period to which it applies. No allowance for uncollectible tax is established because delinquent taxes are considered fully collectible. Prior year tax levies were recorded using the same principal, and delinquent taxes are evaluated annually.

In 2013, the City levied the following property taxes on an assessed value of \$5,545,239,847. The special levies identified in the table were approved by the voters and are not subject to the limitation listed above.

Purpose of the Levy	Levy Rate per \$1,000	Total Levy Amount
General Government	\$1.7615	\$ 9,767,873
Emergency medical service (EMS)	0.5000	2,772,620
Debt Service on voter approved general obligation bonds	0.1767	916,103
Total City Levy	\$2.4382	\$ 13,456,596

Customer Accounts - Customer accounts receivable consist of amounts owed by private individuals and organizations for goods delivered or services rendered in the regular course of business operations. Notes and contracts receivable arise from a written agreement or contract with private individuals or organizations. Receivables are shown net of allowances for uncollectible accounts.

Interfund - Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is 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/due from other funds. Advances to other funds in governmental funds are equally offset by a fund balance reserve account, which indicates that they do not constitute available spendable resources since they are not a component of net current assets.

Unearned Revenues - Unearned revenues include amounts collected before revenue recognition criteria are met because under the modified accrual basis of accounting, they are measurable but not yet available. The unearned revenues consist primarily of contracts and agreements, special assessments, and amounts due from component unit.

In the proprietary funds the premium or discount of long-term debt is amortized over the life of the debt.

Restricted Assets - In accordance with the utility bond resolutions, state law, or other agreements, separate restricted assets have been established. These assets are restricted for specific purposes including the establishment of bond reserve funds, financing the ongoing capital improvement programs of the various utilities, and other purposes. At December 31, 2013 the City had \$1,826,677 cash in the enterprise fund restricted for debt service.

Capital Assets - General capital assets are those assets not specifically related to activities reported in the proprietary funds. The capital assets purchased or constructed by a governmental fund are recorded as expenditures in the fund at the time the related purchases are made; however, the associated capital assets are reported in the governmental activities column of the government-wide statement of Net Position while not reported in the fund balance sheets.

The City classifies assets with an estimated useful life in excess of one year as capital assets. Capital assets include land, buildings, improvements, machinery, equipment, and infrastructure. Land is capitalized at cost with no minimum threshold. Buildings, improvements, and machinery and equipment are capitalized when cost meets or exceeds \$5,000. Public domain (infrastructure) assets consist of certain improvements other than buildings, including utility systems, streets, traffic controls, and overlays are capitalized when cost equals or exceeds \$50,000.

Costs of normal maintenance and repair for general assets are not capitalized. However, any improvement that increases an asset's value, capacity or materially extends its life is added to that asset's capitalized costs.

Equipment items acquired through capital lease agreements and land purchased through conditional sales contracts are reported as general capital assets in the government-wide statement of Net Position. In the governmental fund financial statements, lease and contract payments are reported as expenditures.

All project costs are included in construction in progress in the government-wide statement of Net Position. At completion, capital costs are reclassified to property plant and equipment. In the governmental fund financial statements, projects are reported as expenditures.

Capital assets acquired or constructed by the proprietary funds are capitalized in those funds at historical cost. Contributed assets are recorded at their estimated fair values as of the date acquired. The estimated value of donated assets is recorded as contributed capital by the fund which receives them.

Land and construction in progress are not depreciated. Buildings, equipment, non-building improvements and intangible assets are depreciated using the straight line method, using varying estimated service lives for individual assets and asset classifications depending on particular characteristics of an asset and factors surrounding its anticipated use. Depreciation is reported as part of the related program expense column on government-wide statement of activities and as a fund expense in the proprietary funds, while not reported in the fund statements of governmental funds. Capital assets are reported net of accumulated depreciation on the government-wide Statement of Net Position and in the proprietary funds Statement of Net Position, while not reported in the governmental fund balance sheets. Refer to note 9 for additional information regarding capital assets.

The average service lives used to calculate depreciation for specific categories of assets are summarized below:

<u>Asset Type</u>	<u>Est. Service Life (Yrs)</u>
Buildings	30-50
Improvements other than Buildings	25-60
Infrastructure	20-100
Machinery and Equipment	2-20
Intangible Assets	20-30

Accumulated Compensated Absences - Compensated absences including payroll taxes are reported as a current liability in the balance sheet. Actual balances are accrued for all types of compensated absences except sick leave, the liability for which is generally estimated using the termination method provided by GASB Statement No. 16.

Vacation Pay – Employees earn vacation based upon their years of service and may accumulate earned vacation up to a maximum of two years accrual. Unused vacation at retirement or termination is considered vested and payable to the employee.

Sick Pay – Employees may accumulate up to 1000 hours of sick leave. Up to 800 hours of unused sick leave at retirement or termination is paid based on a percentage of accumulated sick leave. Payment is based on current wage at termination.

Other Compensated Absences – Other compensated absences include compensatory time in lieu of overtime pay; holiday earned by fire and police employees; and other compensation earned by City employees under law or union contracts. Unused compensated absences are payable at retirement or termination.

F. DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

The difference between the reacquisition price and the net carrying amount of the old debt in current refundings and advance refundings resulting in defeasance of debt are recorded as either deferred inflows or deferred outflows. They are deferred outflows of resources if the reacquisition price is greater and deferred inflows of resources otherwise.

G. FUND BALANCES

The difference between fund assets and liabilities is “Net Position” on the government-wide, proprietary, and fiduciary fund statements, and is “fund balance” on the governmental fund statements.

The fund balance amounts for governmental funds have been reclassified in accordance with GASB Statement No. 54. As a result, amounts previously reported as reserved and unreserved are now reported as non-spendable, restricted, committed, assigned, or unassigned.

- Non-spendable fund balance includes items that cannot be spent. This includes activity that is not in a spendable form (inventories, prepaid amounts, long-term portion of loans/notes receivable, or property held for resale unless the proceeds are restricted, committed or assigned) and activity that is legally or contractually required to remain intact, such as a principal balance in a permanent fund.

- Restricted fund balances have constraints placed upon the use of the resources either by an external party or imposed by law through a constitutional provision or enabling legislation.
- Committed fund balance can be used only for specific purposes pursuant to constraints imposed by a formal action of the City Council, the City's highest level of decision-making authority. This formal action is the passage of an ordinance by City Council creating, modifying, or rescinding an appropriation.
- Assigned fund balance includes amounts that are constrained by the City's intent to be used for a specific purpose, but are neither restricted nor committed. For governmental funds, other than the general fund, this is the residual amount within the fund that is not restricted or committed.
- Unassigned fund balance is the residual amount of the general fund not included in the four categories described above. Also, any deficit fund balances within the other governmental fund types are reported as unassigned.

Each fund has been analyzed to classify the fund balance in accordance with GASB Statement No. 54. Funds are created by the City Council and money is authorized to be transferred to the fund for a particular purpose. At this point, balances in these funds are at least committed, and may be further restricted depending on whether there is an external party, constitutional provision, or enabling legislation constraint involved.

The appropriated balance in the general fund is committed, and the remaining balance is unassigned. All other governmental funds are presented as restricted or committed. Appropriations specify the funding source, and therefore the order in which restricted, committed, assigned, or unassigned fund balance gets spent.

H. REVENUES, EXPENDITURES AND EXPENSES

Under the *modified accrual* basis of accounting:

Charges for services, interest on investments, and rents generally are considered measurable and available when earned in governmental funds.

Taxes and federal or state entitlements or shared revenues that have been collected but not remitted by an intermediary collection agency to the City are considered measurable and available.

Special assessments are considered measurable and available when they become due.

Grants are considered measurable and available to the extent that expenditures have been made. Other intergovernmental revenues are considered measurable and available when earned.

Interfund revenues for goods and services are considered measurable and available when earned.

Proceeds from sale or loss of capital assets are recognized as other financing sources.

Revenues from taxpayer-assessed taxes (i.e., sales tax), net of estimated refunds, are recognized when measurable and available to finance expenditures of the current period.

All other revenues are either not measurable or considered not available until collected.

Expenditures are generally recognized when incurred, except for principal and interest on general long-term debt, which are reported as expenditures when paid, and compensated absences, which are reported as expenditures when liquidated from expendable available financial resources.

Under the *accrual* basis of accounting:

Revenues are recognized when earned and expenses are recognized when incurred.

Contributions of capital in proprietary fund financial statements arise from internal and external contributions of capital assets or from grants or outside contributions of resources restricted to capital acquisition and construction.

Transfers between government and business-type activities on the government-wide statement of activities are reported as general revenues. Transfers between funds reported in the governmental activities column are eliminated, as are transfers between funds reported in the business-type activities column.

I. ESTIMATES

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

J. CHANGES IN ACCOUNTING STANDARDS

The accompanying financial statements of the City of Edmonds have been prepared in conformity with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). GASB is the accepted standard-setting body for governmental accounting and financial reporting principles, which are primarily set forth in GASB's *Codification of Governmental Accounting and Financial Reporting Standards*.

The Governmental Accounting Standards Board (GASB) issued Statement No 62 *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The City has an adjustment to the Government Wide Statement of Activities to record the joint venture the City of Edmonds has in SNOCOM (please refer to Note 17). Along with the joint venture change, the City is required to eliminate the transfers within the General Fund in the Statement of Revenues, Expenditures and Changes in Fund Balance Governmental Funds. The detail of the transfers is still available in the Combining Statements.

The Governmental Accounting Standards Board (GASB) issued Statement No 65 *Items Previously Reported as Assets and Liabilities*. The new accounting and reporting standard creates new financial statement elements where the amounts, classified as either deferred inflows of resources or deferred outflows of resources, either need time to pass or amounts be collected to warrant current recognition. In addition to identifying items that need to be reported in the new categories, GASB 65 also identifies certain items previously reported as assets and liabilities that the GASB determined should be recognized as revenues, expenses or expenditures when incurred and not reported in statements of net position/balance sheets at all.

ADJUSTMENTS FOR ADOPTION OF GASB 62 and GASB 65

Governmental Activities

Record SNOCOM Joint Venture	\$ (912,432)
Remove debt issue costs from prior years per GASB 65	28,777
	<u>\$ (883,655)</u>

Business-Type Activities

Remove debt issue costs from prior years per GASB 65	\$ 319,403
	<u>\$ 319,403</u>

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

There have been no material violations of contract provisions.

All funds amended expenditure budgets totaled \$98,291,988, which includes \$19,514,187 of supplemental appropriations. Funds with supplemental appropriations during 2013 and the amounts are shown below:

Fund Number	Fund Description	2013 Original Budget	2013 Supplemental Appropriations	2013 Amended Budget
001	General Fund	\$ 32,836,495	\$ 638,875	\$ 33,475,370
009	Leoff-Medical Ins. Reserve	619,400	-	619,400
011	Risk Management Reserve Fund	661,000	-	661,000
014	Historic Preservation Gift Fund	-	15,000	15,000
016	Building Maintenance	35,000	442,850	477,850
104	Drug Enforcement Fund	80,033	500	80,533
111	Street Fund	1,557,715	-	1,557,715
112	Combined Street Const/Improve	6,304,984	(796,740)	5,508,244
117	Municipal Arts Acquis. Fund	130,600	19,194	149,794
120	Hotel/Motel Tax Revenue Fund	68,500	-	68,500
121	Employee Parking Permit Fund	26,726	660	27,386
122	Youth Scholarship Fund	4,000	-	4,000
123	Tourism Promotional Fund/Arts	19,000	-	19,000
125	Park Acq/Improvement	964,000	557,732	1,521,732
126	Special Capital Fund	662,105	6,429	668,534
127	Gifts Catalog Fund	20,020	23,297	43,317
129	Special Projects Fund	14,700	208,100	222,800
130	Cemetery Maintenance/Improv	152,761	-	152,761
132	Parks Construction	1,887,500	203,700	2,091,200
138	Sister City Commission	4,600	13,549	18,149
139	Transportation Benefit District	645,000	40,000	685,000
211	L.I.D. Fund Control	22,130	-	22,130
231	2012 LTGO Debt Service Fund	-	1,009,902	1,009,902
234	Limited Tax G.O. Bond Fund	388,671	(388,671)	-
421	Water Utility Fund	9,195,130	5,689,396	14,884,526
422	Storm Utility Fund	4,471,135	1,171,107	5,642,242
423	Sewer/WWTP Utility Fund	16,854,966	10,334,116	27,189,082
424	Bond Reserve Fund	-	272,659	272,659
511	Equipment Rental Fund	1,042,840	52,532	1,095,372
617	Firemen's Pension Fund	108,790	-	108,790
	Totals	<u>\$ 78,777,801</u>	<u>\$ 19,514,187</u>	<u>\$ 98,291,988</u>

NOTE 3 – DEPOSITS AND INVESTMENTS

Interest rate risk. Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. As a means of limiting its exposure to fair value losses arising from rising interest rates, the City's investment policy manages the exposure to declines in fair values by limiting the weighted average of maturity of its investments to less than four years, unless an investment is matched to an anticipated future cash flow.

Credit risk. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. State law and the City's investment policy limits the instruments in which the City may invest. These include:

1. United States bonds.
2. United States certificates of indebtedness.
3. Bonds or warrants of the State of Washington.
4. General obligation or utility revenue bonds or warrants of its own or of any other city or town in the State.
5. Its own bonds or warrants of a local improvement district which are within the protection of the local improvement guaranty fund.
6. Savings or time accounts in designated public depositories.
7. Certificates, notes or bonds of United States agencies, or corporations wholly owned by the United States.
8. Repurchase agreements.
9. Banker's acceptances.
10. Federal Home Loan Bank notes and bonds, Federal Land Bank bonds, Federal National Mortgage Association notes, debentures and guaranteed certificates of participation, or obligations of any other government sponsored corporation whose obligations are or may be eligible as collateral for advances to member banks as determined by the Board of Governors of the Federal Reserve System or any portion thereof in investment deposits as defined in RCW 39.8.010 secured by collateral in accordance with RCW 39.58.
11. Interim financing warrants of local improvement districts.
12. State and Local Government Investment Pool.

The City held no debt securities as of December 31, 2013.

The Washington State Local Government Investment Pool (LGIP), created by the Washington State Legislature in 1986, is managed and operated solely by the Office of the State Treasurer. The State Finance Committee administers the statute that created the pool and adopts appropriate rules. The State Treasurer established the LGIP Advisory Committee to provide advice on the pool's operation. The advisory committee includes 12 members selected from the active pool participants. Eight members are appointed by the participant associations, and four are appointed by the State Treasurer.

The LGIP is considered extremely low risk and is recorded as a cash equivalent. The pool is unrated by financial rating agencies. It is operated in a manner consistent with the Securities and Exchange Commission's Rule 2a-7 of the Investment Company Act of 1940. Rule 2a-7 funds are limited to high quality obligations with limited maximum and average maturities, the effect of which is to minimize both market and credit risk. The City's position in the pool is the same as the value of the shares.

The Snohomish County Investment Pool, SCIP, is not registered with the SEC. Investments are reported at fair value to pool participants. It includes participating funds from the county's primary government and funds from the district's where the County Treasurer serves as ex-officio treasurer. There are no involuntary participants in the SCIP. All participants have notified the Treasurer of their desire to participate in SCIP. The portion of the pool belonging to outside

districts is reported in an Investment Trust Fund. SCIP investments are those allowed by County Investment Policy and include savings accounts, CD's and securities.

Fair value of securities is based on the market value reports provided by the county's custodial agent. The market values are uploaded into the county investment software monthly from the custodial agent. The fair value of each participant's investment is determined by calculating the ratio of total investments by pool participants divided into the total fair value of the all SCIP underlying assets. Each pool participant can determine their fair value by taking their investment in SCIP times this ratio.

Pool participant shares are based on the dollars that they have invested in SCIP. The income is distributed based on interest rates on investments, amortization of premiums and discounts, and realized gains and loss for the month.

Pool oversight comes from the Snohomish County Finance Committee (SCFC). The SCFC consists of the County Treasurer, County Executive and Chairman of the County Council. SCFC approves investment policies for SCIP.

Custodial Credit Risk - Deposits. In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. All City deposits are insured by Federal Depository Insurance (FDIC) up to \$250,000. All deposits not covered by FDIC insurance are covered by the Washington Public Deposit Protection Commission (WPDPC) of the State of Washington.

The WPDPC is a statutory authority established under RCW chapter 39.58. It constitutes a multiple financial institution collateral arrangement that provides for additional assessments against members of the pool on a pro rata basis up to a maximum of 10 percent of each institution's public deposits. Provisions of RCW chapter 39.58, section 60 authorize the WPDPC to make pro-rata assessments in proportion to the maximum liability of each such depository as it existed on the date of loss.

Custodial Credit Risk – Investments. For investments, this is the risk that in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All City securities are held for safekeeping by U.S. Bank, as the City's agent, in the City's name.

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 City diversifies its investments by security type and institution. The investment policy states: "No more than fifty percent (50%) of the City's portfolio, at the time of purchase, shall be in any single financial institution" with the exception of US Treasury securities and the State Investment Pool.

A reconciliation of cash, cash equivalents (including pooled investments) and investments as shown in the government-wide and fund financial statements is as follows:

Deposits	\$ 3,536,153
Local Government Investment Pools	39,767,968
Investments	3,459,532
	<u>\$ 46,763,653</u>

Financial Statements

	Governmental Activities	Business-type Activities	Total Primary Govt.	Fiduciary Funds	Total
Cash and Cash Equivalents	\$ 17,829,418	\$ 23,452,940	\$ 41,282,358	\$ 195,087	\$ 41,477,445
Restricted Cash and Cash Equivalents	-	1,826,677	1,826,677	-	1,826,677
Investments	3,459,532	-	3,459,532	-	3,459,532
	<u>\$ 21,288,950</u>	<u>\$ 25,279,617</u>	<u>\$ 46,568,567</u>	<u>\$ 195,087</u>	<u>\$ 46,763,654</u>

NOTE 4 – PROPERTY TAXES

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

Property Tax Calendar

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

Property tax is recorded as a receivable and revenue when levied. Property tax collected in advance of the fiscal year to which it applies is recorded as unearned revenue and recognized as revenue of the period to which it applies. No allowance for uncollectible tax is established because delinquent taxes are considered fully collectible. Prior year tax levies were recorded using the same principal, and delinquent taxes are evaluated annually.

The City may levy up to \$3.10 Per \$1,000 of assess valuation for general governmental services. Washington State Constitution and Washington State law, RCW 84.55.010, limit the rate.

The City's regular levy for 2013 was \$1.9382 per \$1,000 on an assessed valuation of \$5,545,239,847 for a total regular levy of \$13,456,596. The special levies identified in the table were approved by the voters and are not subject to the limitations listed above.

Purpose of the Levy	Ley Rate per \$1,000	Total Ley Amount
General Government	\$1.7615	\$ 9,767,873
Emergency medical service (EMS)	0.5000	2,772,620
Debt Service on voter approved general obligation bonds	0.1767	916,103
Total City Levy	\$2.4382	\$ 13,456,596

NOTE 5 – RECEIVABLES AND PAYABLES

Receivables at December 31, 2013, are as follows:

	Customer Accounts	Taxes	Special Assessments	Due From Other Governments	Due from Component Units	Total
Governmental Activities						
General Fund	\$ 770,238	\$ 311,379	\$ -	\$ 1,722,885	\$ 5,476,494	\$ 8,280,996
Other Governmental Funds	86	-	102,307	1,350,910	-	1,453,303
Internal Service	1,192	-	-	1,429	-	2,621
Total Governmental Activities	<u>\$ 771,516</u>	<u>\$ 311,379</u>	<u>\$ 102,307</u>	<u>\$ 3,075,224</u>	<u>\$ 5,476,494</u>	<u>\$ 9,736,920</u>
Business-type Activities						
Combined Utility Fund	\$2,426,014	\$ -	\$ -	\$ 807,122	\$ -	\$ 3,233,136
Total Business-type Activities	<u>\$2,426,014</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 807,122</u>	<u>\$ -</u>	<u>\$ 3,233,136</u>

Payables at December 31, 2013, are as follows:

	Salaries and Benefits	Accounts Payable	Due to Other Governments	Other Current Liabilities	Total
Governmental Activities					
General Fund	\$ 907,453	\$ 239,883	\$ -	\$ 104,562	\$ 1,251,898
Other Governmental Funds	43,083	318,671	-	991	362,745
Internal Service	14,729	39,130	-	-	53,859
Total Governmental Activities	<u>\$ 965,265</u>	<u>\$ 597,684</u>	<u>\$ -</u>	<u>\$ 105,553</u>	<u>\$ 1,668,502</u>
Business-type Activities					
Combined Utility Fund	\$ 215,625	\$ 691,851	\$ 182,723	\$ 128,730	\$ 1,218,929
Total Business-type Activities	<u>\$ 215,625</u>	<u>\$ 691,851</u>	<u>\$ 182,723</u>	<u>\$ 128,730</u>	<u>\$ 1,218,929</u>

NOTE 6 – DEFERRED INFLOWS AND OUTFLOWS OF RESOURCES

Deferred Outflows of Resources at December 31, 2013, are as follows:

Deferred Outflows of Resources	Enterprise Funds
Difference between the reacquisition price and the net carrying amount of old debt in current refundings when the reacquisition price is greater.	192,700
Total	<u>\$ 192,700</u>

Deferred Inflows of Resources at December 31, 2013, are as follows:

Deferred Inflows of Resources	General Fund	Enterprise Funds
Difference between the reacquisition price and the net carrying amount of old debt in current refundings when the reacquisition price is less.	169,338	82,098
Total	<u>\$ 169,338</u>	<u>\$ 82,098</u>

NOTE 7 – INTERFUND ACTIVITY

There was one interfund balance as of December 31, 2013. It was for the transfer of utility tax revenues from the Utility Fund to the General Fund for services rendered in the amount of \$167,800.

Interfund transfers are the flow of assets without a reciprocal return of assets, goods or services. The City uses transfers to 1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and 2) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. The difference between the following table and the Revenues, Expenditures, and Changes in Fund Balance is due to the transfer between the General Fund and the Firemen's Pension Fund, which is not included in the table below. Interfund activity for the year is as follows:

	Transfers In	Transfers Out			Total
		General	Other Governmental	Enterprise	
General Fund	\$ 12,797	\$ 0	\$ 325,052	\$ -	\$ 325,052
Other Governmental	1,418,626	12,797	1,092,507	-	1,105,304
Enterprise	-	-	1,067		1,067
Total	\$ 1,431,423	\$ 12,797	\$ 1,418,626	\$ -	\$ 1,431,423

NOTE 8 – RESTRICTED COMPONENT OF NET POSITION

The government-wide statement of net position reports \$4,923,480 for Governmental Activities and \$11,138,901 for Business-Type Activities of restricted component of net position.

Governmental Activities Restricted for:	
Debt service restrictions	\$ 57,161
Per RCW, proceeds from seizures are limited to law enforcement activities exclusively	91,432
Restricted per RCW related to state fuel taxes, transportation benefit fees, impact fees and grant agreements	696,354
Restricted per RCW related to REET revenue and lodging tax restrictions, private donors, and grant agreements	3,897,644
Per RCW, proceeds are limited to paying the cost of tourism promotion and the Edmonds Business Improvement District	162,900
Restricted by grant agreements and private donations limited to a specific purpose, Inventory	17,989
Total Restricted Component of Net Position	\$ 4,923,480

Business-Type Activities Restricted for:	
Customer deposits	\$ 7,098
Debt service restrictions	1,826,677
Unspent capital project debt proceeds	9,305,126
Total Restricted Component of Net Position	\$ 11,138,901

NOTE 9 – CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the year ended December 31, 2013 is as follows:

Schedule of Capital Asset Activity				
	Balance 1/1/2013	Increases	Decreases	Balance 12/31/2013
Governmental Activities				
Capital assets, not being depreciated:				
Land	\$ 14,530,663	\$ -	\$ -	\$ 14,530,663
Construction in Progress	9,635,611	2,450,673	(3,411,879)	8,674,405
Total capital assets, not being depreciated:	24,166,274	2,450,673	(3,411,879)	23,205,068
Capital assets, being depreciated:				
Building	25,479,908	-	-	25,479,908
Improvements other than buildings	13,531,609	3,870,866	(207,614)	17,194,861
Infrastructure	57,784,955	166,864	-	57,951,819
Machinery and Equipment	7,385,975	183,635	(182,736)	7,386,874
Total capital assets being depreciated:	104,182,447	4,221,365	(390,350)	108,013,462
Less accumulated depreciation for:				
Buildings	(13,537,472)	(751,838)	-	(14,289,310)
Improvements other than buildings	(6,737,106)	(392,049)	-	(7,129,155)
Infrastructure	(31,032,182)	(2,478,012)	-	(33,510,194)
Machinery and Equipment	(5,004,920)	(424,495)	182,736	(5,246,679)
Total accumulated depreciation:	(56,311,680)	(4,046,394)	182,736	(60,175,338)
Total capital assets, being depreciated, net:	47,870,766	174,971	(207,614)	47,838,124
Governmental activities capital assets, net:	\$ 72,037,041	\$ 2,625,644	\$ (3,619,493)	\$ 71,043,192
Business-type Activities				
Capital assets, not being depreciated:	Beginning	Increases	Decreases	Ending
Land	\$ 1,257,106	\$ -	\$ -	\$ 1,257,106
Construction in Progress	6,161,274	9,798,177	(3,955,284)	12,004,167
Total capital assets, not being depreciated:	7,418,380	9,798,177	(3,955,284)	13,261,273
Capital assets, being depreciated:				
Building	36,888,321	-	-	36,888,321
Improvements other than buildings	61,646,315	4,311,771	(45,000)	65,913,086
Machinery and Equipment	908,194	49,849	-	958,043
Intangible Assets	1,260,260	45,000	-	1,305,260
Total capital assets being depreciated:	100,703,090	4,406,620	(45,000)	105,064,710
Less accumulated depreciation for:				
Buildings	(15,306,721)	(704,272)	-	(16,010,993)
Improvements other than buildings	(23,333,162)	(1,947,386)	-	(25,280,548)
Machinery and Equipment	(677,985)	(32,631)	-	(710,616)
Intangible Assets	(965,384)	(51,899)	-	(1,017,283)
Total accumulated depreciation:	(40,283,252)	(2,736,188)	-	(43,019,440)
Total capital assets, being depreciated, net:	60,419,838	1,670,432	(45,000)	62,045,270
Business activities capital assets, net:	\$ 67,838,218	\$ 11,468,609	\$ (4,000,284)	\$ 75,306,543

Depreciation/amortization expense was charged to functions/programs of the City as follows:

Depreciation Expense by Function

Governmental Activities:

General government	\$ 586,303
Public safety	298,623
Culture and recreation	315,548
Transportation	2,471,170
Physical Environment	9,472
Internal service	365,278
Total depreciation expense - Governmental Activities	\$ 4,046,394

Business-Type Activities:

Stormwater	\$ 424,752
Water	614,518
Sewer	396,186
Wastewater Treatment	1,300,732
Total depreciation expense - Business Type Activities	\$ 2,736,188

NOTE 10 – RECORDED VACATION AND SICK LEAVE

In accordance with GASB Statement No. 16, the City accrues vacation and sick leave pay. The accrual is shown on the government-wide statement of Net Position for both governmental and proprietary funds. The accrual is also seen in the separate proprietary fund balance sheets, but is excluded from the separate governmental fund balance sheets since it is not currently due and payable at year-end (please refer to note 12).

NOTE 11 – PENSION PLANS

Substantially all City 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 retirement plans. 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 98504-8380; or it may be downloaded from the DRS website at www.drs.wa.gov. The following disclosures are made pursuant to GASB Statements No. 27, *Accounting for Pensions by State and Local Government Employers* and No. 50, *Pension Disclosures, an Amendment of GASB Statements No. 25 and No. 27*.

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

Plan Description

The Legislature established PERS in 1947. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts; employees of legislative committees; employees of district and municipal courts; and employees of local governments. Membership also includes higher education employees not participating in higher education retirement programs. Approximately 49 percent of PERS salaries are accounted for by state employment. PERS retirement benefit provisions are established in Chapters 41.34 and 41.40 RCW and may be amended only by the State Legislature.

PERS is a cost-sharing multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a defined benefit plan with a defined contribution component.

PERS members who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 and by either, February 28, 2002 for state and higher education employees, or August 31, 2002 for local government employees, are Plan 2 members unless they exercised an option to transfer their membership to Plan 3. PERS members joining the system on or after March 1, 2002 for state and higher education employees, or September 1, 2002 for local government employees have the irrevocable option of choosing membership in either PERS Plan 2 or Plan 3. The option must be exercised within 90 days of employment. Employees who fail to choose within 90 days default to Plan 3.

PERS is comprised of and reported as three separate plans for accounting purposes: Plan 1, Plan 2/3, and Plan 3. Plan 1 accounts for the defined benefits of Plan 1 members. Plan 2/3 accounts for the defined benefits of Plan 2 members, and the defined benefit portion of benefits for Plan 3 members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members. Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries, as defined by the terms of the plan. Therefore, Plan 2/3 is considered to be a single plan for accounting purposes.

PERS Plan 1 and Plan 2 retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the PERS Plan 1 and Plan 2 defined benefit plans accrue interest at a rate specified by the Director of DRS. During DRS' Fiscal Year 2013, the rate was five and one-half percent compounded quarterly. Members in PERS Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest thereon, in lieu of any retirement benefit, upon separation from PERS-covered employment.

PERS Plan 1 members are vested after the completion of five years of eligible service.

PERS Plan 1 members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with 25 years of service, or at age 60 with at least 5 years of service. Plan 1 members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits.

The monthly benefit is 2 percent of the average final compensation (AFC) per year of service, but the benefit may not exceed 60 percent of the AFC. The AFC is the monthly average of the 24 consecutive highest-paid service credit months.

PERS Plan 1 retirement benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

Plan 1 members may elect to receive an optional COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 provides duty and non-duty disability benefits. Duty disability retirement benefits for disablement prior to the age of 60 consist of a temporary life annuity. The benefit amount is \$350 a month, or two-thirds of the monthly AFC, whichever is less. The benefit is reduced by any workers' compensation benefit and is payable as long as the member remains disabled or until the member attains the age of 60, at which time the benefit is converted to the member's service retirement amount.

A member with five years of covered employment is eligible for non-duty disability retirement. Prior to the age of 55, the benefit amount is 2 percent of the AFC for each year of service reduced by 2 percent for each year that the member's age is less than 55. The total benefit is limited to 60 percent of the AFC and is actuarially reduced to reflect the choice of a survivor option. Plan 1 members may elect to receive an optional COLA amount (based on the Consumer Price Index), capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members are eligible for normal retirement at the age of 65 with five years of service. The monthly benefit is 2 percent of the AFC per year of service. The AFC is the monthly average of the 60 consecutive highest-paid service months. There is no cap on years of service credit; and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually.

PERS Plan 2 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 reduced benefit. The benefit is reduced by an early retirement factor (ERF) that varies according to age, for each year before age 65.

PERS Plan 2 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions, if hired prior to May 1, 2013:

- With a benefit that is reduced by 3 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 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of 5 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.

PERS Plan 2 retirement benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component and member contributions finance a defined contribution component. As established by Chapter 41.34 RCW, employee contribution rates to the defined contribution component range from 5 percent to 15 percent of salaries, based on member choice. Members who do not choose a contribution rate default to a 5 percent rate. There are currently no requirements for employer contributions to the defined contribution component of PERS Plan 3.

PERS Plan 3 defined contribution retirement benefits are dependent upon the results of investment activities. Members may elect to self-direct the investment of their contributions. Any expenses incurred in conjunction with self-directed investments are paid by members. Absent a member's self-direction, PERS Plan 3 contributions are invested in the Retirement Strategy Fund that assumes the member will retire at age 65.

For DRS' Fiscal Year 2013, PERS Plan 3 employee contributions were \$99.0 million, and plan refunds paid out were \$69.4 million.

The defined benefit portion of PERS Plan 3 provides members a monthly benefit that is 1 percent of the AFC per year of service. The AFC is the monthly average of the 60 consecutive highest-paid service months. There is no cap on years of service credit, and Plan 3 provides the same cost-of-living allowance as Plan 2.

Effective June 7, 2006, PERS 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 twelve months of that service are earned after age 44; or after five service credit years earned in PERS Plan 2 by June 1, 2003. Plan 3 members are immediately vested in the defined contribution portion of their plan.

Vested Plan 3 members are eligible for normal retirement at age 65, or they may retire early with the following conditions and benefits:

- If they have at least ten service credit years and are 55 years old, the benefit is reduced by an ERF that varies with age, for each year before age 65.
- If they have 30 service credit years and are at least 55 years old, and were hired before May 1, 2013, they have the choice of a benefit that is reduced by 3 percent for each year before age 65; or a benefit with a smaller (or no) reduction factor (depending on age) that imposes stricter return-to-work rules.
- If they have 30 service credit years, are at least 55 years old, and were hired after May 1, 2013, they have the option to retire early by accepting a reduction of 5 percent for each year before age 65.

PERS Plan 3 benefits are actuarially reduced to reflect the choice, if made, of a survivor option. PERS Plan 2 and Plan 3 provide disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 monthly benefit amount is 2 percent of the AFC per year of service. For Plan 3, the monthly benefit amount is 1 percent of the AFC per year of service. These disability benefit amounts are actuarially reduced for each year that the member's age is less than 65, and to reflect the choice of a survivor option. There is no cap on years of service credit, and a cost-of-living allowance is granted (based on the Consumer Price Index) capped at 3 percent annually.

PERS members meeting specific eligibility requirements have options available to enhance their retirement benefits. Some of these options are available to their survivors.

A one-time duty-related death benefit is provided to the beneficiary or the estate of a PERS member who dies as a result of injuries sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of the member's covered employment, if found eligible by the Department of Labor and Industries.

From January 1, 2007 through December 31, 2007, judicial members of PERS were given the choice to elect participation in the Judicial Benefit Multiplier (JBM) Program enacted in 2006. Justices and judges in PERS Plan 1 and Plan 2 were able to make an irrevocable election to pay increased contributions that would fund a retirement benefit with a 3.5 percent multiplier. The benefit would be capped at 75 percent of AFC. Judges in PERS Plan 3 could elect a 1.6 percent of pay per year of service benefit, capped at 37.5 percent of AFC.

Newly elected or appointed justices and judges who chose to become PERS members on or after January 1, 2007, or who had not previously opted into PERS membership, were required to participate in the JBM Program.

There are 1,176 participating employers in PERS. [1] Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2012:

Retirees and Beneficiaries Receiving Benefits	89,242
Terminated Plan Member Entitled to But Not Yet Receiving Benefits	30,515
Active Plan Members Vested	106,317
Active Plan Member Non-vested	44,273
Total	263,347

Funding Policy

Each biennium, the state Pension Funding Council adopts PERS Plan 1 employer contribution rates, PERS Plan 2 employer and employee contribution rates, and PERS Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent for state agencies and local government unit employees, and at 7.5 percent for state government elected officials. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. Under PERS Plan 3, employer contributions finance the defined benefit portion of the plan and member contributions finance the defined contribution portion. The Plan 3 employee contribution rates range from 5 percent to 15 percent.

As a result of the implementation of the Judicial Benefit Multiplier Program in January 2007, a second tier of employer and employee rates was developed to fund, along with investment earnings, the increased retirement benefits of those justices and judges that participate in the program

The methods used to determine the contribution requirements are established under state statute in accordance with Chapters 41.40 and 41.45 RCW.

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2013, are as follows:

Members Not Participating in JBM:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	9.21% **	9.21% **	9.21% ***
Employee	6.00% ****	4.64% ***	****

* The employer rates include the employer administrative expense fee currently set at 0.18%.

** The employer rate for state elected officials is 13.73% for Plan 1 and 9.21% for Plan 2 and Plan 3.

*** Plan 3 defined benefit portion only.

**** The employee rate for state elected officials is 7.50% for Plan 1 and 4.92% for Plan 2.

***** Variable from 5.0% minimum to 15.0% maximum based on rate selected by the PERS 3 member.

Members Participating in JBM:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer-State Agency*	11.71%	11.71%	11.71% **
Employer-Local Government Units*	9.21%	9.21%	9.21% **
Employee-State Agency	9.76%	9.80%	7.5% ***
Employee-Local Government Units	12.26%	12.30%	7.5% ***

* The employer rates include the employer administrative expense fee currently set at 0.18%.

** Plan 3 defined benefit portion only.

***Minimum rate.

Both city and the employees made the required contributions. [2] The city required contributions for the years ended December 31 were as follows:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2013	\$ 30,034	\$ 724,420	\$ 91,404
2012	\$ 26,031	\$ 631,650	\$ 83,572
2011	\$ 16,259	\$ 541,368	\$ 68,507

Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) Plans 1 and 2

Plan Description

LEOFF was established in 1970 by the Legislature. Membership includes all full-time, fully compensated, local law enforcement commissioned officers, firefighters and, as of July 24, 2005, emergency medical technicians. LEOFF membership is comprised primarily of non-state employees, with Department of Fish and Wildlife enforcement officers, who were first included effective July 27, 2003, being an exception. LEOFF retirement benefit provisions are established in chapter 41.26 RCW and may be amended only by the State Legislature.

LEOFF is a cost-sharing multiple-employer retirement system comprised of two separate defined benefit plans. LEOFF members who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 are Plan 2 members.

Effective July 1, 2003, the LEOFF Plan 2 Retirement Board was established by Initiative 790 to provide governance of LEOFF Plan 2. The Board's duties include adopting contribution rates and recommending policy changes to the Legislature.

LEOFF retirement benefits are financed from a combination of investment earnings, employer and employee contributions, and a special funding situation in which the state pays through legislative appropriations. Employee contributions to the LEOFF Plan 1 and Plan 2 defined benefit plans accrue interest at a rate specified by the Director of DRS. During DRS' Fiscal Year 2013, the rate was five and one-half percent compounded quarterly. Members in LEOFF Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest earnings, in lieu of any retirement benefit, upon separation from LEOFF-covered employment.

LEOFF Plan 1 members are vested after the completion of five years of eligible service. Plan 1 members are eligible for retirement with five years of service at the age of 50.

The benefit per year of service calculated as a percent of final average salary (FAS) is as follows:

Terms of Service	Percent of Final Average Salary
20 or more years	2.0%
10 but less than 20 years	1.5%
5 but less than 10 years	1.0%

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 10 years of service. A cost-of-living allowance is granted (based on the Consumer Price Index).

LEOFF Plan 1 provides death and disability benefits. Death benefits for survivors of Plan 1 members on active duty consist of the following: (1) If there is an eligible spouse, 50 percent of the FAS, plus 5 percent of the FAS for each eligible surviving child, with a limitation on the combined benefit of 60 percent of the FAS; or (2) If there is no eligible spouse, eligible children receive 30 percent of the FAS for the first child plus 10 percent for each additional child, subject to a 60 percent limitation of the FAS, divided equally.

A one-time duty-related death benefit is provided to the beneficiary or the estate of a LEOFF Plan 1 member who dies as a result of injuries or illness sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of the member's covered employment, if found eligible by the Department of Labor and Industries.

The LEOFF Plan 1 disability benefit is 50 percent of the FAS plus 5 percent for each child up to a maximum of 60 percent. Upon recovery from disability before the age of 50, a member is restored to service with full credit for service while disabled. Upon recovery after the age of 50, the benefit continues as the greater of the member's disability benefit or service retirement benefit.

LEOFF Plan 2 members are vested after the completion of five years of eligible service.

Plan 2 members are eligible for retirement at the age of 53 with five years of service, or at age 50 with 20 years of service. Plan 2 members receive a benefit of 2 percent of the FAS per year of service (the FAS is based on the highest consecutive 60 months), actuarially reduced to reflect the choice of a survivor option. 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 3 percent for each year prior to age 53. Otherwise, the benefits are actuarially reduced for each year prior to age 53. A cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually.

LEOFF Plan 2 provides disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 benefit amount is 2 percent of the FAS for each year of service. Benefits are reduced to reflect the choice of survivor option and for each year that the member's age is less than 53, unless the disability is duty-related. If the member has at least 20 years of service and is age 50, the reduction is 3 percent for each year prior to age 53.

A disability benefit equal to 70 percent of their FAS, subject to offsets for workers' compensation and Social Security disability benefits received, is also available to those LEOFF Plan 2 members who are catastrophically disabled in the line of duty and incapable of future substantial gainful employment in any capacity. Effective June 2010, benefits to LEOFF Plan 2 members who are catastrophically disabled include payment of eligible health care insurance premiums.

Members of LEOFF Plan 2 who leave service because of a line of duty disability are allowed to withdraw 150 percent of accumulated member contributions. This withdrawal benefit is not subject to federal income tax. Alternatively, members of LEOFF Plan 2 who leave service because of a line of duty disability may be eligible to receive a retirement benefit of at least 10 percent of FAS and 2 percent per year of service beyond five years. The first 10 percent of the FAS is not subject to federal income tax.

LEOFF Plan 2 retirees may return to work in an eligible position covered by another retirement system, choose membership in that system and suspend their pension benefits, or not choose membership and continue receiving pension benefits without interruption.

A one-time duty-related death benefit is provided to the beneficiary or the estate of a LEOFF Plan 2 member who dies as a result of injuries or illness sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of the member's covered employment, if found eligible by the Department of Labor and Industries.

Benefits to eligible surviving spouses and dependent children of LEOFF Plan 2 members killed in the course of employment include the payment of eligible health care insurance premiums.

Legislation passed in 2009 provides to the Washington state registered domestic partners of LEOFF Plan 2 members the same treatment as married spouses, to the extent that the treatment is not in conflict with federal laws.

LEOFF members meeting specific eligibility requirements have options available to enhance their retirement benefits. Some of these options are available to their survivors.

There are 374 participating employers in LEOFF. Membership in LEOFF consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2012.

Retirees and Beneficiaries Receiving Benefits	10,189
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	689
Active Plan Members Vested	14,273
Active Plan Members Non-vested	2,633
Total	27,784

Funding Policy

Employer and employee contribution rates are developed by the Office of the State Actuary to fully fund the plans. Starting on July 1, 2000, Plan 1 employers and employees contribute zero percent, as long as the plan remains fully funded. Plan 2 employers and employees are required to pay at the level adopted by the LEOFF Plan 2 Retirement Board.

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 DRS' Fiscal Year 2013, the state contributed \$54.2 million to LEOFF Plan 2.

The methods used to determine the contribution requirements are established under state statute in accordance with Chapters 41.26 and 41.45 RCW.

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2013, are as follows:

	LEOFF Plan 1	LEOFF Plan 2
Employer*	0.18%	5.23%**
Employee	0.00%	8.41%
State	N/A	3.36%

*The employer rates include the employer administrative expense fee currently set at 0.18%.

**The employer rate for ports and universities is 8.59%.

Both the city and the employees made the required contributions. [2] The city's required contributions for the years ended December 31 were as follows:

	LEOFF Plan 1	LEOFF Plan 2
2013	\$0	\$269,162
2012	\$0	\$273,236
2011	\$0	\$274,168

Firemen's Pension

Plan Description

The Law Enforcement Officers' and Firefighters' (LEOFF) pension system was established by the State of Washington on March 1, 1970. The City retained the responsibility for all benefits payable to members (or to their survivors) who retired prior to that date. In addition, the City retained the responsibility for a portion of the benefits payable to members who were active on that date.

As a result, the City of Edmonds is the administrator of the Firemen's Pension Plan which is shown as a trust fund in the City's financial reports. Separate financial statements are not issued.

This system is a closed, single-employer, defined benefit pension system. All City firefighters who served before March 1, 1970 are participants of this pension fund. Benefits are established in accordance with Revised Code of Washington (RCW) 41.18 and 41.20. At December 31, 2013, there were four retirees receiving pension and medical benefits from this fund.

Firefighters hired between March 1, 1970 and September 30, 1977 are members of the LEOFF 1 pension system and are also eligible for a supplemental retirement benefit plus health benefits under the City plan. Generally, benefits under the LEOFF 1 retirement benefit system are greater than or equal to the retirement benefits under the City plan. However, should the benefits under the old law exceed those under LEOFF 1 the City becomes liable for the excess benefits. As such, the laws require the payment of excess benefits only and do not require a specific contribution rate by the City. At December 31, 2013 there were 23 retirees receiving medical benefits. These benefits were paid from the LEOFF 1 Retiree Medical Reserve Fund.

Funding Policy and Funding Status

Under State law, the Firemen's Pension Fund is provided an allocation of 25% of all monies received by the State from taxes on fire insurance premiums. The General Fund may provide additional funding through transfers to help fund benefits and administrative costs as necessary. Active pension plan members are not required to contribute to the plan.

Summary of Significant Accounting Policies

Basis of accounting - The financial statements are prepared using the accrual basis of accounting. Benefits are recognized when due and payable in accordance with the plan.

Valuation of investments – For reporting, interest earnings are recognized in the accounting period in which they become available and measurable. Investments are reported on the financial statements at fair value based on quoted market prices.

Concentration of Investments

At December 31, 2013 the Fire Pension Fund did not hold any investments. The net pension obligation has been recorded as a noncurrent liability on the City's government-wide statement of Net Position.

THREE YEAR TREND INFORMATION

<u>Fiscal Year Ending 12/31</u>	<u>Annual Pension Cost (APC)</u>	<u>Contribution as a Percentage of APC</u>	<u>Net Pension Obligation (NPO)</u>
2011	32,582	-19%	220,065
2012	30,690	137%	208,751
2013	36,074	72%	218,986

The City's annual pension cost and net pension obligation changes for the current year and two preceding years were as follows:

	12/31/2011	12/31/2012	12/31/2013
1. Annual Normal Cost (BOY)	\$ -	\$ -	\$ -
2. Amortization of UAAL (BOY)	37,117	37,117	42,522
3. Interest to EOY [(1)+(2)]x(i)*	<u>1,485</u>	<u>1,485</u>	<u>1,701</u>
Annual Required Contribution (ARC) at EOY			
4. [(1)+(2)+(3)]	\$ 38,602	\$ 38,602	\$ 44,223
5. Interest on NPO	7,250	8,803	8,350
6. Adjustment to ARC	<u>13,270</u>	<u>16,715</u>	<u>16,499</u>
7. Annual pension cost (APC) [(4)+(5)-(6)]	\$ 32,582	\$ 30,690	\$ 36,074
8. Employer Contributions**	(6,229)	42,004	25,839
9. Change in NPO [(7)-(8)]	<u>38,811</u>	<u>(11,314)</u>	<u>10,235</u>
10. NPO at BOY [(11) prior year]	<u>\$ 181,254</u>	<u>\$ 220,065</u>	<u>\$ 208,751</u>
11. NPO at EOY [(9)+(10)]	\$ 220,065	\$ 208,751	\$ 218,986

* 'i' is the assumed interest rate that year: 4.0% in 2011, 4.0% in 2012, 4.0% in 2013.

** Employer contributions for pensions are total contributions to the Fund net of disbursements from the Fund for medical expenses under RCW 41.26.150 and administrative expenses.

Actuarial Information

On March 4, 2013, Northwest Plan Services, Inc., actuaries and consultants, completed the Firemen's Pension Fund Actuarial valuation. This valuation was updated on December 31, 2012. In order to comply with reporting requirements, they computed the annual required contribution (ARC) using the Entry Age Cost Normal Actuarial Method.

Under this method, the projected benefits are allocated on a level basis as a percentage of salary over the earnings of each individual between entry age and assumed exit age. The amount allocated to each year is called the Normal Cost and the portion of the Actuarial Present Value of all benefits not provided for by future Normal Cost payments is called the Actuarial Liability. Since all members have already retired, the annual Normal Cost is zero. The Unfunded Actuarial Accrued Liability (UAAL) is the Actuarial Accrued Liability minus the actuarial value of the Fund's assets. The UAAL is amortized as a level dollar amount over a closed 30 years beginning January 1, 2000.

Significant actuarial assumptions used in the valuation include:

- 4.0 percent investment return, compounded annually
- 3.5 percent annual salary increase
- 2.5 percent growth in fire insurance premium
- 2.5 percent increase in consumer price index
- 7.25 percent increase in medical inflation rate, trending down to 5 percent after 9 years
- 5.0 percent increase in long term care inflation rate
- Plan assets are valued at market value

Prior actuarial studies used 9.0 percent growth in the medical inflation rate. There were no material changes to the benefit provisions, actuarial funding method, or other significant factors that affect required contributions.

Municipal Employees Benefits Trust (MEBT)

Full- and qualifying part-time City employees participate in the City-defined contribution plan. By majority vote, City employees approved the City's withdrawal from the Social Security System pursuant to 2 U.S.C.A., Sec. 418 (g) effective July 1, 1977. City employees who customarily work 1,000 or more hours per year and who otherwise would be eligible for Social Security coverage and benefits are required to participate. Both the City and participants are required to contribute an amount equal to the current Federal Insurance Contributions Act (FICA) tax rate. The City's contribution for fiscal year 2013 was \$994,107 which represents its full liability.

For the year ending December 31, 2013, the City's covered payroll was \$15,731,502. The City's total current year payroll for all employees is \$16,287,439. No significant benefit changes occurred in 2013.

The plan is administered by a Plan Committee consisting of two members appointed by the Mayor and five members elected by the employees who contribute to the plan. Members appointed by the Mayor hold office at the pleasure of the Mayor, elected members serve a two-year term and may be re-elected for an additional two-year term.

Plan assets are not City property, but are maintained in trust at American Stock Transfer and Trust Company. Plan assets, therefore, are not included in accompanying financial statements.

The City may amend the provisions of the plan, provided that no such amendment shall enlarge the duties or liabilities of the plan trustee without its consent.

The City has the right at any time to reduce suspend or completely discontinue its contributions to the plan. Actuarial determinations are not required because 1) long-term disability insurance and survivor income insurance are provided by Group Insurance Policy No. 377655 with Standard Insurance Company, and 2) each participant shall, at his/her normal retirement, instruct the Trustee to (a) acquire a non-forfeitable, non-transferable annuity contract, (b) pay his/her retirement benefit from his/her account (no City or participant contributions shall be added to his account after retirement), and (c) pay a single cash sum. When a participant terminates, the Trustee shall be instructed to pay the full amount of the participant's contributions plus the vested portion credited to his account.

NOTE 12 – OTHER POST EMPLOYMENT BENEFITS (OPEB)

In addition to providing pension benefits described under “Fireman’s Pension,” the City provides post-employment health care benefits. In accordance with RCW 41.26.150, all employees who become eligible after age 50 or become disabled while employed with at least five years of service in the LEOFF I System are eligible. Under authorization of the Disability Board, the City pays medical insurance premiums and medical expenses including long-term care. Post-employment health care benefits are being funded on a pay as you go basis. The retiree does not contribute towards the cost of his/her medical care. Post-employment health care costs of \$189,908 and long-term care costs of \$102,167 were reported in the LEOFF 1 Medical Reserve Fund 009. At December 31, 2013 there was \$442,276 of cash and cash equivalents available to pay benefits.

The City’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation were as follows:

<u>Fiscal Year Ending 12/31</u>	<u>Annual OPEB Cost</u>	<u>Contribution as a Percentage of Annual OPEB Cost</u>	<u>Net OPEB Obligation</u>
2011	593,358	91%	437,472
2012	591,657	99%	445,956
2013	617,774	52%	741,671

The City's annual OPEB and Net OPEB obligation for the current and preceding year were as follows:

	12/31/2011	12/31/2012	12/31/2013
Annual Normal Cost (BOY)	\$ -	\$ -	\$ -
Amortization of UAAL (BOY)	577,965	577,965	603,904
Interest to EOY [(1)+(2)x(i)*	23,119	23,119	24,156
Annual Required Contribution (ARC) at EOY [(1)+(2)+(3)]	\$ 601,084	\$ 601,084	\$ 628,060
Interest on Net OPEB Obligation	15,328	17,499	17,838
Adjustment to ARC	23,054	26,926	28,124
Annual pension cost (APC) [(4)+(5)-(6)]	\$ 593,358	\$ 591,657	\$ 617,774
Employer Contributions**	539,097	583,173	322,059
Change in Net OPEB Obligation [(7)-(8)]	54,261	8,484	295,715
Net OPEB Obligation at BOY [(11) prior year]	\$ 383,211	\$ 437,472	\$ 445,956
Net OPEB Obligation at EOY [(9)+(10)]	\$ 437,472	\$ 445,956	\$ 741,671

* 'i' is the assumed interest rate that year: 4.0% in 2011, 4.0% in 2012, 4.0% in 2013.

**Employer contributions for pensions are total contributions net of medical expenses for the year as provided by RCW.41.26.150 and administrative expenses.

Actuarial Information

GASB Statement 45, Accounting and Financial Reporting by Employers for Post-employment Benefits other than Pensions requires the disclosure of the employer liability for retiree medical subsidies and other post-employment benefits. On March 4, 2013, Northwest Plan Services, Inc., actuaries and consultants, completed an actuarial valuation. In order to comply with reporting requirements, they computed the annual required contribution (ARC) using the Entry Age Cost Normal Actuarial Method. This valuation was updated as of December 31, 2012.

The ARC is equal to an amount required each year to fully fund the liability. The amount allocated to each year is called the Normal Cost and the portion of the Actuarial Present Value of all benefits not provided for by future Normal Cost payments is called the Actuarial Liability. Since all members have already retired, the annual Normal Cost is zero. The Unfunded Actuarial Accrued Liability (UAAL) is the Actuarial Accrued Liability minus the actuarial value of the Fund's assets. The UAAL is amortized as a level dollar amount over a closed 30 years beginning January 1, 2007.

Significant actuarial assumptions used in the valuation include:

- 4.0 percent investment return, compounded annually
- 2.5 percent increase in consumer price index
- 7.25 percent increase in medical inflation rate, trending down to 5.0 percent after 9 years
- 5.0 percent increase in long term care inflation rate
- Asset valuation method N/A

NOTE 13 – LONG-TERM DEBT

The City of Edmonds' issues general obligation and revenue bonds to finance the acquisition and construction of major capital facilities and capital programs. The City issued new Water and Sewer Revenue Bonds in 2013 in the amount of \$15,010,000. General obligation bonds have been issued in the past for both general government and business-type activities and are being repaid from the applicable resources. Governmental Activities long-term debt is paid from property and sales tax revenues. The revenue bonds are being repaid by the revenues generated by the related utility. The City of Edmonds is also liable for eight Public Works Trust Fund Loans; three are general obligation loans and five businesses-type loans. The notes are considered obligations of both the general government and the Utility and are being repaid from the applicable resources. The City is in compliance with all Washington State debt limitation statutes and bond indenture agreements.

General obligation bonds currently outstanding are as follows:

Issue Name	Maturity Date	Interest Rates	Original Amount	Principal Installments	Balance 12/31/13
Governmental Debt:					
<u>General Obligation Bonds:</u>					
2003 UTGO Ref. Bonds - Public Safety Buildings	12/01/2016	2.00-3.50%	\$ 7,000,000	\$70,000 - \$960,000	\$ 2,720,000
2007 LTGO Bonds - Capital Improvements	3/15/2026	3.65-3.95%	1,384,904	\$130,000-\$370,000	1,020,804
2012 LTGO Refunding Bonds	12/1/2031	1.75-3.00%	9,004,043	\$80,000 - \$880,000	8,178,670
Total Governmental GO Bonds			17,388,947		11,919,474
Business-type Debt:					
<u>General Obligation Bonds:</u>					
2007 LTGO Bonds - Capital Improvements	3/15/2026	3.65-3.95%	3,845,096	\$130,000-\$370,000	2,834,196
2012 LTGO Refunding Bonds	12/1/2031	1.75-3.00%	320,957	\$80,000 - \$880,000	266,330
Total Business-type GO Bonds			4,166,053		3,100,526
Total General Obligation Bonds			<u>\$ 21,555,000</u>		<u>\$ 15,020,000</u>

Revenue bonds currently outstanding are as follows:

Issue Name	Maturity Date	Interest Rates	Original Amount	Principal Installments	Balance 12/31/13
Business-type Debt:					
<u>Revenue Bonds</u>					
2011 Water/Sewer Bonds	12/1/2031	3.65-3.95%	13,720,000	\$470,000 - \$945,000	12,735,000
2013 Water/Sewer Bonds	12/1/2038	4.00-5.00%	15,010,000	\$838,665-1,825,413	15,010,000
Total Revenue Bonds			<u>\$ 28,730,000</u>		<u>\$ 27,745,000</u>

Public Works Trust Fund Loans currently outstanding are as follows:

Issue Name	Maturity Date	Interest Rates	Original Amount	Principal Installments	Balance 12/31/13
Governmental Debt:					
<u>Public Works Trust Fund Loans:</u>					
P W Trust Fund Loan - Street Construction	6/30/2022	0.50%	\$ 340,000	\$13,421 - \$18,143	\$ 163,290
P W Trust Fund Loan - Street Construction	6/30/2024	0.50%	400,000	\$20,000 - \$21,176	232,941
P W Trust Fund Loan - Street Construction	5/24/2026	0.50%	624,750	\$32,882	427,461
Total Governmental Debt Public Works Trust Fund Loans			1,364,750		823,692
Business-type Debt:					
<u>Public Works Trust Fund Loans:</u>					
P W Trust Fund Loan - Trt. Plant/Sew er Improv.	6/30/2022	0.50%	1,347,250	\$67,363 - \$71,325	641,925
P W Trust Fund Loan - Water Improvements	6/30/2024	0.50%	408,000	\$4,295 - \$25,839	284,228
P W Trust Fund Loan - Storm Improvements	6/30/2024	0.50%	605,625	\$30,281 - \$32,063	352,688
P W Trust Fund Loan - Sew er Improvements	6/30/2025	0.50%	1,216,902	\$12,809 - \$67,615	867,543
P W Trust Fund Loan - 09 Water Improvements	7/1/2015	0%	100,000	\$18,000 - \$20,000	40,000
Total Business- type Debt Public Works Trust Fund Loans			3,677,777		2,186,384
Total Public Works Trust Fund Loans			<u>\$5,042,527</u>		<u>\$3,010,076</u>

Capital Contracts currently outstanding are as follows:

Issue Name	Maturity Date	Interest Rates	Original Amount	Principal Installments	Balance 12/31/13
Governmental Debt:					
<u>Capital Contracts</u>					
1996 Note - Fire Station #10	01/01/2015	1.00%	\$ 1,136,115	\$54,592 - \$65,300	\$ 129,950
2005 Contract - Public Safety Radio Equipment	12/01/2019	3.00-5.00%	1,595,046	\$77,457 - \$141,288	762,380
Total Capital Contracts			<u>\$ 2,731,161</u>		<u>\$ 892,330</u>

Debt Limit

RCW 39.36.020 provides cities with three segments of debt capacity, each equal to two and one-half percent of the city's assessed valuation, for a total of seven and one-half percent (7.5%). Allowable uses of these segments are as follows:

Segment 1 – General Governmental Purposes

The City can incur debt up to one and one-half percent (1.5%) of its assessed valuation solely with a vote of the legislative body (often referred to as "councilmanic" debt). To use the remaining one percent (1%), a 60 percent vote in favor of the issue by at least 40 percent of the voters voting in the last general election is required.

Segment 2 – City-Owned Water and Sewer Purposes

The City can incur debt up to an additional two and one-half percent (2.5%) for water and sewer purposes with a 60 percent vote in favor of the issue by at least 40 percent of the voters voting in the last general election.

Segment 3 – Acquiring and Developing Open Space, Parks Facilities, and Capital Facilities Associated with Economic Development

The City can incur debt up to an additional two and one-half percent (2.5%) for acquiring and developing open space, parks facilities, and capital facilities associated with economic development purposes with a 60 percent vote in favor of the issue by at least 40 percent of the voters voting in the last general election.

Debt Limit Capacity

Item	Governmental Purposes		Water & Sewer Purposes	Park & Capital Facilities
	Without Vote (Councilmanic)	With Vote	With Vote	With Vote
	1.5%	2.5%	2.5%	2.5%
Legal Limits	\$ 91,536,176	\$ 61,024,117	\$ 152,560,293	\$ 152,560,293
Net outstanding indebtedness	(16,803,553)	(2,720,000)	-	-
Margin Available	\$ 74,732,622	\$ 58,304,117	\$ 152,560,293	\$ 152,560,293

Refunded Debt

In prior years, the City has defeased several revenue bond issues by creating separate irrevocable trust funds. New debt has been issued and the proceeds used to purchase U.S. Government securities that were placed in the trust funds. Investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the debt is considered defeased and therefore removed as a liability from City financial statements.

Debt Service to Maturity

The requirements to amortize the long-term debt as of December 31, 2013 are presented below. Debt service for the LTGO bonds are met by the General Fund and certain special revenue funds, and reimbursements from proprietary funds of the City with the exception of the 2012 LTGO refunding bonds. The PFD is obligated by inter-local agreement to pay the entire amount of the PFD's portion of the 2012 debt service over the life of the bonds. (refer to Note 1 – Reporting Entity). Debt service for the UTGO bonds are covered by property tax levies that authorized the bond issues. Debt service for the revenue bonds is paid by the Utility Fund. Debt service for the capital contracts is expended from the General Fund. In prior years the City has typically used the General Fund to liquidate long-term liabilities other than debt.

Following is a table which reflects debt service to maturity for Governmental Activities and Business-Type Activities.

Year	GOVERNMENTAL ACTIVITIES			BUSINESS TYPE ACTIVITIES		
	Principal	Interest	Total	Principal	Interest	Total
2014	4,810,266	294,041	5,104,307	1,134,627	1,261,272	2,395,899
2015	1,743,885	239,967	1,983,852	1,140,381	1,230,701	2,371,082
2016	1,733,273	218,273	1,951,546	1,147,733	1,199,545	2,347,278
2017	836,306	182,187	1,018,493	1,177,230	1,167,469	2,344,699
2018	868,871	161,445	1,030,316	1,210,403	1,134,252	2,344,655
2019-2023	3,949,377	511,312	4,460,689	6,546,057	5,034,472	11,580,529
2024-2028	2,221,833	126,130	2,347,963	6,285,480	3,881,857	10,167,337
2029-2033	235,000	10,688	245,688	6,425,000	2,696,015	9,121,015
	\$16,398,811	\$1,744,043	\$18,142,854	\$25,066,911	\$17,605,583	\$42,672,494

At December 31, 2013 the City had \$1,826,677 in the Enterprise fund available for debt service.

Arbitrage

The Federal Tax Reform Act of 1986 requires tax-exempt debt issuers to pay investment income received at yields that exceed the issuer's borrowing rates to the United States Treasury. The liability is recorded at present value and payable every five years or 60 days after defeasance of the debt. At December 31, 2013, the City of Edmonds had no arbitrage liability.

Revenue Bond Debt Service Coverage

The required debt service coverage for the utility revenue bonds is 1.25. Please refer to Schedule 15 in the statistical section.

The restricted rate stabilization fund for the utility revenue bonds was established to minimize the effect on rates of revenue fluctuations between years. By transferring cash into this stabilization fund, adjusted net revenue available for debt service, as defined, would be decreased by the amount of the transfer. Conversely, transfers out of the account would increase adjusted net revenue available for debt service.

NOTE 14 – CHANGES IN LONG-TERM LIABILITIES

During the year ended December 31, 2013, the following changes occurred in long-term liabilities:

	Beginning Balance 1/1/2013	Additions	Reductions	Ending Balance 12/31/2013	Due Within One Year
Governmental activities					
Bonds payable:					
General obligation bonds	\$ 13,604,427	\$ -	\$ (1,684,953)	\$ 11,919,474	\$ 1,771,895
Total bonds payable:	13,604,427	-	(1,684,953)	11,919,474	1,771,895
Net Pension Obligation	208,751	10,235	-	218,986	-
OPEB payable	445,956	295,715	-	741,671	-
Compensated absences	2,647,280	1,827,946	(2,040,189)	2,435,037	2,080,993
Capital contracts	1,063,924	-	(171,594)	892,330	177,971
Public Works Trust Loan	895,893	-	(72,201)	823,692	72,201
Governmental activity long-term liabilities	\$ 18,866,231	\$ 2,133,896	\$ (3,968,937)	\$ 17,031,190	\$ 4,103,060
Business-type activities					
Bonds Payable:					
General obligation bonds	\$ 3,320,573	\$ -	\$ (220,047)	\$ 3,100,526	\$ 228,105
Revenue bonds	13,250,000	15,010,000	(515,000)	27,745,000	685,000
Less:					
For issuance premiums	413,478	129,328	(23,247)	519,559	27,720
For issuance discount	(12,296)	-	868	(11,428)	(868)
On refunding	(182,814)	-	182,814	-	-
Total bonds payable:	16,788,941	15,139,328	(574,612)	31,353,657	939,957
Compensated absences	403,249	364,217	(341,140)	426,326	347,963
Public Works Trust Loan	2,407,905	-	(221,521)	2,186,384	221,522
Business-type activity long-term liabilities	\$ 19,600,095	\$ 15,503,545	\$ (1,137,273)	\$ 33,966,367	\$ 1,509,442

Internal service funds predominately serve the governmental funds. Accordingly, the December 31, 2013 long-term liabilities for the fund are included as part of the above totals for governmental activities. At year end \$39,322 of internal service funds compensated absences are included in the above amounts.

The General Fund typically is used to liquidate prior years' liability for compensated absences and other post-employment benefit obligations.

NOTE 15 – CONTINGENCIES AND LITIGATIONS

The City is exposed to the risk of loss from torts, theft of or damage to assets, business interruption, errors or omissions, law enforcement actions, contractual actions, natural disasters, environmental regulations, and other third-party liabilities. The City also bears the risk of loss for job-related illnesses and injuries to employees. The City has insurance policies to cover these general liability risks with the Washington Cities Insurance Authority (WCIA). Refer to Note 16 for more detailed information on risk management.

There are several disputes and pending lawsuits in which the City is named. The City Attorney estimates the potential claims against the City not covered by insurance resulting from such disputes and litigation could range from zero to \$400,000 and estimates the likelihood of this range is from reasonably possible to remote.

The City participates in a number of federal- and state-assisted programs. These programs are subject to audit by the governmental unit administering the program or their representative. Such audits could result in requests for reimbursement of disallowed expenditures. Based on audit history, City management believes that any disallowance will be immaterial.

The City Council approved a guaranty of a borrowing of the Edmonds Public Facilities District for up to \$7 million. This guaranty represents an outstanding contingent liability of the City.

NOTE 16 – RISK MANAGEMENT

The City of Edmonds is a member of the Washington Cities Insurance Authority (WCIA).

Utilizing Chapter 48.62 RCW (self-insurance regulation) and Chapter 39.34 RCW (Interlocal Cooperation Act), nine cities originally formed WCIA on January 1, 1981. WCIA was created for the purpose of providing a pooling mechanism for jointly purchasing insurance, jointly self-insuring, and / or jointly contracting for risk management services. WCIA has a total of 162 Members.

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

Liability coverage is written on an occurrence basis, without deductibles. Coverage includes general, automobile, police, public officials' errors or omissions, stop gap, and employee benefits liability. Limits are \$4 million per occurrence self insured layer, and \$16 million per occurrence in the re-insured excess layer. The excess layer is insured by the purchase of reinsurance and insurance and is subject to aggregate limits. Total limits are \$20 million per occurrence subject to aggregate sublimits in the excess layers. The Board of Directors determines the limits and terms of coverage annually.

Insurance coverage for property, automobile physical damage, fidelity, inland marine, and boiler and machinery are purchased on a group basis. Various deductibles apply by type of coverage. Property insurance and auto physical damage are self-funded from the members' deductible to \$750,000, for all perils other than flood and earthquake, and insured above that amount by the purchase of insurance.

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

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

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

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

Workers' Compensation

Title 51 RCW requires the City to ensure payment of benefits for job-related injuries and diseases through the Workers' Compensation fund or through self-insurance. The City participates in the

State of Washington's Workers' Compensation program. Premiums are based on individual employer's reported payroll hours and insurance rates based on each employer's risk classification and past experience. The premium is paid by employer and employee contributions.

NOTE 17 – JOINT VENTURE

The City entered into a joint venture with Snohomish County and other local governments in the establishment and operations of the Snohomish County Emergency Radio System. Control of this joint venture is shared equitably by the controlling organizations. This entity is reported as a governmental joint venture.

The Snohomish County Emergency Radio System is considered a separate reporting entity. The City's and each participants share of authority is defined by the terms of the enabling charter. Control as represented by the City Council or Board of County Commissioners is divided between the County and participating Cities. Separate financial statements for the Snohomish County Emergency Radio System can be obtained from Snohomish County.

The Snohomish County Emergency Radio System was created by agreement under the Interlocal Cooperation Act (RCW 39.34) between The City of Edmonds, Snohomish County and various other cities and political districts. The purpose of the venture is to equip and operate a radio system primarily for the use of public safety agencies. The City of Edmonds has an 8% interest in the equity and operations of the venture. The City's share of the assets and fund equity as of December 31, 2013 was \$461,108. The venture appears to be accumulating significant resources, and is not experiencing any fiscal stress that would cause an additional financial burden on the participating governments.

The City of Edmonds participates in a second single joint venture with other local governments in the "*Southwest Snohomish County Public Safety Communications Agency*," (SNOCOM) a public non-profit corporation formed in 1971 and incorporated in 2014. The purpose of SNOCOM is to provide public safety communications, records retention and usage and other board approved functions.

SNOCOM was established via an interlocal agreement between the City of Edmonds, six other cities and Snohomish County Fire District 1 all located within the county. Each member city and the Fire District provide voting members to the SNOCOM board of directors. The purpose of SNOCOM is to provide communications and dispatching for public health and safety services in Southwest Snohomish County.

The Cities of Brier, Edmonds, Lynnwood, Mill Creek, Mountlake Terrace, Mukilteo, Woodway and Fire District 1 are jointly responsible for the financing of SNOCOM. The interlocal agreement details clearly an allocation formula that determines each member's share in the joint venture and its reported equity interest in their respective financial statements. It incorporates each agency's population, assessed value and usage of 911 calls for service. Each member provides a voting representative to SNOCOM governing board of directors. The SNOCOM board has the authority to approve project expenditures and adopt SNOCOM budget.

At December 31, 2013, the City of Edmonds owned an equity interest in the SNOCOM joint venture of \$907,057. This value has been recorded in the government wide statements as an asset for the year ended December 31, 2013. The equity interest is adjusted to the extent of revenues and expenditure transactions occurring between the City of Mountlake Terrace and SNOCOM as recorded in the City of Mountlake Terrace's financial system. The City of Mountlake Terrace, who acts as the entity's fiscal agent under the Interlocal Agreement for Financial Services signed on November 25, 2009, prepares the unaudited financial information. Separate financial statements for the Snohomish County Public Safety Communication Agency can be obtained from the City of Mountlake Terrace, Finance Department, 6100 219th St SW, Suite 200, Mountlake Terrace, WA 98043.

In September, 2013, the City of Edmonds joined the cities of Everett, Granite Falls, Lake Stevens, Lynnwood, Marysville, Mill Creek, Mountlake Terrace, Mukilteo, and Snohomish, the Town of Woodway, and Snohomish County to establish the Alliance for Housing Affordability (AHA). The agreement was amended in May, 2014 to add the City of Arlington and in June, 2014 to add the City of Stanwood.

The purpose of AHA is to cooperatively formulate affordable housing goals and policies and to foster efforts to provide affordable housing by providing expertise and information to member jurisdictions. Operating funding is provided by the member cities.

AHA is governed by a Joint Board composed of an elected official from each member. The Joint Board is responsible for review and approval of all budgetary, financial, policy, and contractual matters. The Board is assisted by an administrative staff housed at the Housing Authority for Snohomish County. Fiscal agent duties are performed by the City of Mountlake Terrace.

Each member city is responsible for contributing operating revenues as determined from the AHA annual budget. Contributions from the member cities are based on each member's population. A grant from the Gates Foundation provided \$50,000 to assist with the first two years of organizational start-up. The City of Edmonds' equity share to date is:

Year Budget	AHA Budget	Edmonds' Share	Edmonds' Share as % of AHA
2013	\$89,850	\$2,385	2.6%
2014	\$92,543	\$2,456	2.7%

Members withdrawing from the agreement relinquish all rights to any reserve funds, equipment, or material purchased. Upon dissolution, the agreement provides for distribution of net assets among the members based on the percentage of the total annual contributions during the period of the Agreement paid by each member.

Budget monitoring information can be obtained from Sonja Springer, Finance Director, City of Mountlake Terrace, 6100 219th Street SW, Mountlake Terrace WA 98043 (or email: sspringer@ci.mlt.wa.us) or from Kristina Gallant, Housing Analyst, Alliance for Housing Affordability, 12625 4th Ave W, Suite 200, Everett, WA 98204.

NOTE 18 – COMMITMENTS

The City has several capital improvement projects in progress. As of December 31, 2013, the City's outstanding contractual obligations, which include construction and engineering contracts, are summarized below:

Contract Name	Original Amount	Expenditure	Remaining Commitment
2012 Sanitary Sewer Replacement Project	55,178	45,277	9,901
2012 Sewermain-224th St. SW Sewer Replacement	139,784	126,018	13,766
2013 Citywide Drainage Replacement	133,998	41,368	92,630
2013 Construction Administration	125,000	116,514	8,486
2013 Sanitary Sewer Pipe Rehab	135,345	98,438	36,907
2013 Sewerline Replacement Program	61,600	39,272	22,328
2013 Waterline Replacement Project	1,304,458	1,268,344	36,114
2014 Citywide Drainage Replacement (N. Stream Inlet Replacement)	25,291	-	25,291
2014 Waterline Replacement Program	69,410	67,746	1,664
220 7th Ave N Curb/Gutter Project	12,450	-	12,450
228th Street SW Corridor Improvements Project	535,387	480,778	54,609
5th Ave S Overlay Project	925,756	865,981	59,775
76th Ave W & 212th St. SW Intersection	469,311	170,030	299,281
76th Ave W/75th Pl W Walkway and 162nd Park	161,000	60,888	100,113
Citywide Safety Improvements	257,022	180,857	76,164
Dayton St./SR104 Drainage Alternatives Study	192,210	173,397	18,813
Edmonds Marsh Feasibility Study	21,995	21,656	339
Edmonds Marsh Feasibility Study - Willow Creek Daylighting	25,239	4,955	20,284
Five Corners Roundabout	450,754	430,664	20,090
Hwy 99 Enhancements (Phase III)	80,127	56,833	23,293
Interurban Trail	131,125	129,974	1,151
LID Retrofits Perrinville Creek Stormwater Flow Reduction Project	46,999	3,584	43,415
Main Street Pedestrian Lighting from 5th to 6th	236,597	224,922	11,675
Northstream Pipe Abandonment	8,170	-	8,170
Perrinville Creek Culvert Replacement	5,322	4,077	1,245
Perrinville Creek Stormwater Flow Reduction Retrofit Study	368,488	96,452	272,036
Perrinville Creek Stormwater Sampling	9,607	9,448	159
Public Works Facilities Water Quality Upgrades	80,031	54,740	25,291
Sewer Lift Stations Rehabilitation	4,904,989	4,723,620	181,369
SR99 International District Enhancements	27,252	20,954	6,298
Storm Drainage Improvements - 88th & 194th	8,592	-	8,592
Sunset Walkway Project	69,800	64,791	5,009
SW Edmonds - 105th/106th Ave W Storm Improvements	55,600	-	55,600
SW Edmonds Basin #3 - 238th St. SW to Hickman Park (Phase 2)	22,647	4,489	18,158
Water, Sewer, Stormwater Revenue Req Update	12,910	12,740	170
WWTP Facility Remodel - Design	67,000	57,656	9,344
Sewer Sludge Incinerator - title 5 permit	22,500	8,865	13,635
2013 Energy Improvement water feature	10,000	-	10,000
	\$ 11,268,944	\$ 9,665,330	\$ 1,603,614

NOTE 19 – PRIOR PERIOD CORRECTIONS

The City received two grant awards for our Interurban Trail Project. In 2011, the City billed the granting agencies for expenses related to the project and accrued the grant revenue and recorded an offsetting receivable in our 2011 annual report. Subsequently, the City was notified that \$109,906 of the expenses did not qualify for reimbursement.

Governmental Activities

Interurban Grant	109,906
	<u>\$ 109,906</u>

NOTE 20 – SUBSEQUENT EVENT

On January 31st, 2014, the City refinanced the City's 2003 Unlimited Tax General Obligation Bond in the amount of \$2,763,314. The bond was refinanced with a three year bank loan from Cashmere Valley Bank.

FIREMEN'S PENSION TRUST FUND

SCHEDULE OF FUNDING PROGRESS (rounded to thousands)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liabilities	Unfunded Actuarial Accrued Liabilities (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
January 1, 2012	\$ 217	\$ 755	\$ 538	29%	N/A	N/A
January 1, 2010	267	774	507	34%	N/A	N/A
January 1, 2008	297	871	574	34%	N/A	N/A

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Fiscal Year Ending 12/31	Medical and Long Term Care Payments	Fire Insurance Premium Taxes	Total Employer Contributions***	Annual Required Contribution	Percentage of ARC Contributed**
2013	\$ (23,653)	\$ 49,492	\$ 25,839	\$ 44,223	58%
2012	(2,661)	44,665	42,004	38,602	109%
2011	(6,307)	78	(6,229)	38,602	-16%
2010	(13,708)	44,905	31,197	40,903	76%
2009	(8,589)	42,172	33,583	40,903	82%
2008	(4,524)	44,226	39,702	28,629	139%

RETIREE MEDICAL AND LONG-TERM CARE BENEFITS FOR LEOFF 1 EMPLOYEES

SCHEDULE OF FUNDING PROGRESS (rounded to thousands)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liabilities	Unfunded Actuarial Accrued Liabilities (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
January 1, 2012	\$ -	\$ 9,576	\$ 9,576	0%	N/A	N/A
January 1, 2010	-	9,607	9,607	0%	N/A	N/A
January 1, 2008	-	9,887	9,887	0%	N/A	N/A

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Fiscal Year Ending 12/31	Total Employer Contributions***	Annual Required Contribution	Percentage of ARC Contributed**
2013	\$ 322,059	\$ 628,060	51%
2012	583,173	601,084	97%
2011	539,097	601,084	90%
2010	523,170	593,330	88%
2009	479,076	593,330	81%
2008	444,701	561,707	79%

NOTES TO REQUIRED SUPPLEMENTAL INFORMATION

FIREMEN'S PENSION TRUST FUND

Actuarial Valuations	
Actuarial valuation date	January 1, 2012
Actuarial cost method	Entry age normal
Amortization method	30 year, closed as of January 1, 2000
Remaining amortization period	17 years
Asset valuation method	Fair market value
Assumptions	
Investment rate of return	4.00%
Projected salary increases	3.50%
Price inflation	2.50%
	Based upon salary increase assumptions when appropriate for Trust benefits. *
	Based upon inflation assumption for some Trust benefits and all LEOFF benefits.

* Under the Firemen's Pension Trust Fund, most adjustments are based on the change in salary for the rank of members held at retirement or based on the Consumer Price Index. Adjustments are determined in accordance with RCW 41.18.150, RCW 41.20 and RCW 41.26.

RETIREE MEDICAL AND LONG-TERM CARE BENEFITS FOR LEOFF 1 EMPLOYEES

Actuarial Valuations	
Actuarial valuation date	January 1, 2012
Actuarial cost method	Entry age normal
Amortization method	30 year, closed as of January 1, 2007
Remaining amortization period	24 years
Asset valuation method	Fair market value
Assumptions	
Investment rate of return	4.00%
Medical inflation rate	7.25%, downgrading to 5.00% over nine years
Long-term care inflation	5.00%

CITY OF EDMONDS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For Year Ended December 31, 2013

1	2	3	4	5	6	7		8
CFDA #	Federal Agency Name	Federal Program Name	Pass-through Agency Name	Other Award I.D. Number	ARRA	From Pass-Through Awards	From Direct Awards	Total
15.904	Department of the Interior	Historic Preservation Fund Grants-In-Aid	N/A	53-10-AP-5051	N	0	13,270	13,270
15.904	Department of the Interior	Historic Preservation Fund Grants-In-Aid	Department of Archaeology and Historic Preservation	53-10-AP-3075	N	4,564	0	4,564
16.607	US Department of Justice	Bulletproof Vest Partnership Program	N/A	N/A	N	0	1,150	1,150
81.117	Department of Energy	Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training and Technical Analysis/Assistance	Department of Commerce	F14-52117-015	N	34,000	0	34,000
20.205	U.S. DOT	Highway Planning and Construction	Washington State Department of Transportation	CM-2512 (007)	N	187,695	0	187,695
20.205	U.S. DOT	Highway Planning and Construction	Washington State Department of Transportation	STPUL-2502 (001)	N	234,477	0	234,477
20.205	U.S. DOT	Highway Planning and Construction	Washington State Department of Transportation	EDM-13	N	5,335	0	5,335
20.205	U.S. DOT	Highway Planning and Construction	Washington State Department of Transportation	EDM-21	N	121,794	0	121,794
20.205	U.S. DOT	Highway Planning and Construction	Washington State Department of Transportation	STPE-0099(100)	N	160,366	0	160,366
20.205	U.S. DOT	Highway Planning and Construction	Washington State Department of Transportation	STPUL-2535 (003)	N	530,145	0	530,145
20.205	U.S. DOT	Highway Planning and Construction	Washington State Department of Transportation		N	38,579	0	38,579
20.205	U.S. DOT	Highway Planning and Construction	Washington State Department of Transportation		N	63,258	0	63,258
20.205	U.S. DOT	Highway Planning and Construction	Washington State Department of Transportation	HSP-0099(124)	N	61,290	0	61,290
20.205	U.S. DOT	Highway Planning and Construction	Washington State Department of Transportation	SRTS-0365 (010)	N	62	0	62
20.600	U.S. DOT	State and Community Highway Safety	Washington State Traffic Safety Commission	N/A	N	799	0	799
20.600	U.S. DOT	State and Community Highway Safety	Washington State Traffic Safety Commission	N/A	N	1,118	0	1,118
20.601	U.S. DOT	Alcohol Impaired Driving Countermeasures Incentive Grant I	Washington State Traffic Safety Commission	N/A	N	4,871	0	4,871
20.609	U.S. DOT	Safety Belt Performance Grants	Washington State Traffic Safety Commission	N/A	N	8,256	0	8,256
97.056	Department of Homeland Security	Port Security Grant Program	Seattle Fire Department	N/A	N	2,047	0	2,047
Total Federal Awards Expended						\$1,458,656	\$14,420	\$1,473,076

CITY OF EDMONDS, WASHINGTON
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2013

NOTE 1 – BASIS OF ACCOUNTING

This schedule is prepared on the same basis of accounting as the city of Edmond's financial statements. The City uses the modified accrual accounting method which is followed in all government funds, expendable trust, and agency funds and the full accrual accounting method in its proprietary funds.

NOTE 2 – PROGRAM COSTS

The amounts shown as current year expenditures represent only the grant portion of the program costs. Entire program costs, including the City's portion, may be more than shown.

NOTE 3 – AMERICAN RECOVERY AND REINVESTMENT ACCT (ARRA) OF 2009

Expenditures for this program were funded by ARRA.

NOTE 4 – FEDERAL LOANS

The City does not have any federal loans.

NOTE 5 – REVOLVING LOAN – PROGRAM INCOME

The City does not have any revolving loans.



ABOUT THE STATE AUDITOR'S OFFICE

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

We work with our audit clients and citizens as an advocate for government accountability. As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

The State Auditor's Office employees are located around the state to deliver services effectively and efficiently.

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

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

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

State Auditor
Chief of Staff
Director of Performance and State Audit
Director of Local Audit
Deputy Director of State Audit
Deputy Director of Local Audit
Deputy Director of Local Audit
Deputy Director of Performance Audit
Deputy Director of Quality Assurance
Deputy Director of Communications
Public Records Officer
Main number
Toll-free Citizen Hotline

Troy Kelley
Doug Cochran
Chuck Pfeil, CPA
Kelly Collins, CPA
Jan M. Jutte, CPA, CGFM
Sadie Armijo
Mark Rapozo, CPA
Lou Adams, CPA
Barb Hinton
Thomas Shapley
Mary Leider
(360) 902-0370
(866) 902-3900

Website
Subscription Service

www.sao.wa.gov
portal.sao.wa.gov/saoportal/Login.aspx