Washington State Auditor's Office

Financial Statements and Federal Single Audit Report

City of Everett
Snohomish County

Audit Period
January 1, 2013 through December 31, 2013

Report No. 1012275

Issue Date
July 28, 2014

Washington State Auditor
Troy Kelley
Independence • Respect • Integrity

Washington State Auditor
Troy Kelley

July 28, 2014

Mayor and City Council
City of Everett
Everett, Washington

Report on Financial Statements and Federal Single Audit

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

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

Sincerely,

Troy X. Kelley

TROY KELLEY
STATE AUDITOR

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Federal Summary

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

The results of our audit of the City of Everett 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, each major fund and the aggregate discretely presented component units and remaining fund information.

Internal Control Over Financial Reporting:

- ***Significant Deficiencies:*** We identified deficiencies in the design or operation of internal control over financial reporting that we consider to be significant deficiencies.

- ***Material Weaknesses:*** We identified no deficiencies that we consider to be material weaknesses.

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

FEDERAL AWARDS

Internal Control Over Major Programs:

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

- ***Material Weaknesses:*** We identified no deficiencies that we consider to be material weaknesses.

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

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

Identification of Major Programs:

The following were major programs during the period under audit:

CFDA No.	Program Title
16.738	JAG Program Cluster – Edward Byrne Memorial Justice Assistance Grant Program
16.804	ARRA – JAG Program Cluster – Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to Units of Local Government (Recovery Act)
20.500	Federal Transit Cluster – Federal Transit Capital Investment – Formula Grants
20.507	Federal Transit Cluster – Federal Transit – Formula Grants
97.056	Port Security Grant Program
97.067	Homeland Security Grant Program

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by OMB Circular A-133, was $390,118.

The City did not qualify as a low-risk auditee under OMB Circular A-133.

Schedule of Audit Findings and Responses

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

1. The City's internal controls over accounting and financial statement preparation were inadequate to ensure accurate reporting.

Background:

City management is responsible for designing and following internal controls that provide reasonable assurance regarding the reliability of financial reporting. Our audit identified deficiencies in internal controls over financial reporting that could affect the City's ability to produce reliable financial statements.

In our prior audit, we communicated deficiencies identified in the City's internal controls over financial statement preparation to management.

Description of Condition

We identified the following deficiencies in internal controls that when taken together, represent a significant deficiency:

- The City's Accounting Department relies on supporting documentation and information from other departments to prepare the Schedule of Expenditures of Federal Awards (SEFA); however, it lacks procedures to ensure the information received from the departments is accurate and based on federal expenditures.

- Although the City utilizes a year-end checklist to ensure financial statements are accurate and complete, the City did not dedicate sufficient time and resources to this process. As a result, the review was not effective in identifying financial statement errors.

Cause of Condition

The City prepares its financial statements in accordance with Generally Accepted Accounting Principles (GAAP). These financial statements are complex and reporting requirements change frequently. City management did not dedicate and prioritize the necessary staff time or resources, including training for staff, to ensure its financial reporting was accurate and complete.

Effect of Condition

The City's financial statements contained significant errors that were not detected by City management. We identified the following errors in the original financial statements we received for audit:

The Port Security Grant Program, CFDA 97.056, expenditures on the SEFA did not include $63,769 of donated equipment. As a result of this misstatement, total program expenditures increased and the City no longer required an audit of five federal programs but an audit of four programs. Unnecessary audit costs on the fifth program would have totaled $4,180 had the error not been identified while planning the audit.

We found the Community Housing Improvement Program (CHIP) Loan Program Fund included long-term notes receivable of $13.2 million. Proceeds of the notes receivable are restricted by contracts between the City and homeowners.

The City reported the long-term notes receivable as "non-spendable" fund balance on the Governmental Funds Balance Sheet when it should have been reported as "restricted" fund balance. This misclassification is material to the aggregate remaining funds opinion unit (a roll up of non-major enterprise and governmental funds, internal service and fiduciary funds). As a result, the City also understated restricted fund balance and overstated its unrestricted fund balance on the Statement of Net Position by the same amount.

The City corrected these errors.

Recommendation

We recommend the City dedicate the necessary time and resources to ensure:

- A centralized, detailed review of all documentation provided by departments is performed to ensure it supports accurate and complete recording and reporting of financial information by the City.

- Individuals responsible for preparing and reviewing the financial statements have sufficient training on GAAP requirements and reporting..

- Ensure staff responsible for reviewing the financial statements is given sufficient time and resources to perform this review.

City's Response

The City received $13,003,947 in federal assistance from 22 federal programs in 2013. Management concurs that $63,769 in equipment received through the Port Security Grant Program was omitted from the SEFA. The omitted amount is less than 0.5% of the total federal assistance reported. Accounting staff has revised its grant tracking process to ensure that all grants are captured and reported on the SEFA.

Management also concurs that $13.2 million in long-term notes receivable to the CHIP were incorrectly classified as "non-spendable, which resulted in the City's unrestricted fund balance being over-reported and its restricted fund balance being under-reported. Additional training on GASB 54 will be provided to ensure that fund balances are correctly classified and reported.

Auditor's Remarks

We thank the City for its commitment to resolving the issues identified during the current audit. We will review the status of this finding during the next regularly scheduled audit.

Applicable Laws and Regulations

Government Auditing Standards, December 2011 Revision, paragraph 4.23 states:

> **4.23** When performing GAGAS financial audits, auditors should communicate in the report on internal control over financial reporting and compliance, based upon the work performed, (1) significant deficiencies and material weaknesses in internal control; (2) instances of fraud and noncompliance with provisions of laws or regulations that have a material effect on the audit and any other instances that warrant the attention of those charged with governance; (3) noncompliance with provisions of contracts or grant agreements that has a material effect on the audit; and (4) abuse that has a material effect on the audit.
>
> The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its *Codification of Statements on Auditing Standards*, section 265, as follows:
>
> **.07** For purposes of generally accepted auditing standards, the following terms have the meanings attributed as follows:
>
> Material weakness. A deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.
>
> Significant deficiency. 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.

Governmental Auditing Standards Board (GASB) Statement No. 54

> Nonspendable Fund Balance
>
> 6. The nonspendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. The -not in

spendable form criterion includes items that are not expected to be converted to cash, for example, inventories and prepaid amounts. It also includes the long-term amount of loans and notes receivable, as well as property acquired for resale. However, if the use of the proceeds from the collection of those receivables or from the sale of those properties is restricted, committed, or assigned, then they should be included in the appropriate fund balance classification (restricted, committed, or assigned), rather than nonspendable fund balance.

Schedule of Prior Federal Audit Findings

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

This schedule presents the status of federal findings reported in prior audit periods. The status listed below is the representation of the City of Everett. The State Auditor's Office has reviewed the status as presented by the City.

Audit Period:	**Report Ref. No.:**	**Finding Ref. No.:**	**CFDA Number(s):**
January 1, 2012 through December 31, 2012	1010534	1	16.710

Federal Program Name and Granting Agency:	**Pass-Through Agency Name:**
ARRA - Public Safety Partnership and Community Policing Grants U.S. Department of Justice	NA

Finding Caption:
The City did not have adequate internal controls to ensure it spent federal funds on allowable activities and complied with federal cost principles, cash management and reporting requirements.

Background:
The U.S. Department of Justice awarded the City a Community Oriented Policing Services (COPS) Hiring Program grant in 2009. The City may use the funds over three years to pay the salary of entry level officers or re-assigned officers working on specific community safety programs created under the terms of the grant. In 2012 the City spent $233,461 to pay for the third year of salaries and benefits for new officers hired, although not assigned, to these specific programs.

The City did not use grant funds to pay the salary of entry-level officers or re-assigned officers working on specific community safety programs. One officer whose time was charged to the grant was ineligible because he was hired prior to the grant award. The City was reimbursed for ineligible salary costs of $67,694.

The Police Department used the approved grant budget for billing purposes, rather than actual expenditures charged to the grant. In April 2012, the City requested reimbursement that exceeded actual expenditures, resulting in a cash advance of $911. The City did not earn interest in excess of $100 on this money; therefore, the City did not need to remit the interest to the Department of Justice.

Status of Corrective Action: (check one)

☐ Fully Corrected ☐ Partially Corrected ☐ No Corrective Action Taken ☒ Finding is considered no longer valid

Corrective Action Taken:
The City no longer receives grant funding from this program; therefore, the finding is considered no longer valid.

However, the City has implemented the following internal control procedures to existing and future federal programs awarded:

Time and Effort Documentation

1. *Where employees work on multiple activities or cost objectives, their salaries and wages are supported by activity reports.*

2. *Where employees work solely on a single federal award, charges for their salaries and wages are supported by periodic certifications.*

Review of Reimbursement Request
Each drawdown request prepared by the Project Coordinator is reviewed and approved by the Accounting Department staff.

Federal Financial Report
The Federal Financial Report prepared by the Project Coordinator is reviewed and approved by the Accounting Department staff.

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 Everett
Snohomish County
January 1, 2013 through December 31, 2013

Mayor and City Council
City of Everett
Everett, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate discretely presented component units and remaining fund information of the City of Everett, 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 25, 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 City's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Audit Findings and Responses as Finding 1, that we consider to be significant deficiencies.

COMPLIANCE AND OTHER MATTERS

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

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

CITY'S REPONSE TO FINDINGS

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

PURPOSE OF THIS REPORT

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

Troy X. Kelley

TROY KELLEY
STATE AUDITOR

June 25, 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 Everett
Snohomish County
January 1, 2013 through December 31, 2013

Mayor and City Council
City of Everett
Everett, Washington

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

We have audited the compliance of the City of Everett, 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.

Troy X. Kelley

TROY KELLEY
STATE AUDITOR

June 25, 2014

Independent Auditor's Report on Financial Statements

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

Mayor and City Council
City of Everett
Everett, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate discretely presented component units and remaining fund information of the City of Everett, 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 17.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate discretely presented component units and remaining fund information of the City of Everett, as of December 31, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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 18 through 29, budgetary comparison information on pages 84 through 86, pension trust fund information on page 87, information on postemployment benefits other than pensions on page 88 and 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 25, 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 X. Kelley

TROY KELLEY
STATE AUDITOR

June 25, 2014

Financial Section

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

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MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the City of Everett's annual financial report provides a narrative overview of the City's financial activities for the fiscal year ended December 31, 2013. The intent of this discussion and analysis is to review the City's financial performance as a whole. Please read it in conjunction with the Letter of Transmittal, the Financial Statements, and the Notes to the Financial Statements.

2013 FINANCIAL HIGHLIGHTS

- At December 31, 2013, the City's net position, the amount by which total assets exceed total liabilities, totaled $841.2 million. Of this amount, $664.0 million, or 78.9%, is invested in capital assets. Of the remaining net position, $134.2 million is unrestricted and may be used to meet the City's ongoing obligations.

- The overall financial position of the City has remained relatively unchanged. Business type activities' net position increased by a net of $5.3 million as a result of higher revenues and lower expenses. Governmental type activities' net position increased by $1.9 million.

- As of December 31, 2013, the City's governmental funds reported a combined ending fund balance of $105.5 million, a decrease of $6.0 million from 2012 as the expenditures continue to exceed revenues. In order to address the shortfall, the City has formed a Structural Deficit Advisory Team to research and evaluate potential options to balance the budget.

- In 2013, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 65, Items Previously Reported as Assets and Liabilities. The objective of this statement is to improve financial reporting by clarifying the appropriate use of the financial statement elements deferred outflows of resources and deferred inflows of resources. The result of implementation was direct adjustment to net position in the amount of $178K in governmental activities and $1,744K in business type activities to eliminate the unamortized debt issuance costs.

OVERVIEW OF THE FINANCIAL STATEMENTS

The required components of the City's annual financial report include the Management's Discussion and Analysis (MD&A), the basic financial statements, and other required supplementary information. This discussion and analysis provides an overview of the City's basic financial statements, which consist 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 includes other voluntary supplementary information. The additional supplementary information includes a section with combining statements that provides details about the City's non-major funds and internal service funds -- all of which are added together and presented in single columns in the basic financial statements.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

Government-wide financial statements provide readers with a broad overview of the City's finances in a manner similar to a private-sector business. They provide both short-term and long-term information about the City's financial status as a whole.

The government-wide statements distinguish between functions of the City that are principally supported by taxes and intergovernmental revenues (referred to as "governmental activities") from functions that are intended to recover all or a significant portion of their costs through user fees and charges (referred to as "business-type activities"). The City also includes the Everett Public Facilities District (EPFD) as a discretely presented component unit in its report. A component unit is a governmental unit over which the City can exercise influence and/or may be obligated to provide a financial subsidy. The EPFD is presented in a separate column in the government-wide statements. This presentation allows users of the government-wide financial statements to focus on the primary government as well as address the City's relative relationship with the EPFD.

The Statement of Net Position presents information on all of the City's assets and liabilities, with the difference between the two reported as net position. This statement combines and consolidates governmental funds' current financial resources (short-term spendable resources) with capital assets and long-term obligations. The Statement of Net position serves a purpose similar to that of the Balance Sheet of a private-sector business. Over time, increases or decreases in net position may serve as one indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities presents information on the net cost of each governmental and business-type function as well as information on how the government's net position changed during the fiscal year. This statement also separates program revenue (revenue generated by specific programs through charges for services, grants, and contributions) from general revenue (revenue provided by taxes and other sources not tied to a particular program). By separating program revenue from general revenue, users of the financial statements can identify the extent to which each program relies on taxes for funding.

All changes in net position are reported using the accrual basis of accounting, which is similar to the accounting used by private-sector businesses. The accrual basis of accounting requires that revenues are reported when earned and expenses are reported when incurred, regardless of the timing of when cash is received or paid. For instance, uncollected taxes and unpaid vendor invoices for items received in the current fiscal year are included in the statement of activities as revenue and expense, even though the cash associated with these items will not be received or distributed until future fiscal periods.

FUND FINANCIAL STATEMENTS

While the government–wide statements look at the City as a whole and focus on types of activities (general government versus business-type activities), the fund financial statements provide a more detailed look at the City's individual major funds and combined fund types.

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City uses funds to ensure and demonstrate fiscal accountability and compliance with finance-related legal requirements. The City's funds fall into three types: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds account for most of the City's tax-supported activities and are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statement, the focus of governmental fund financial statements is on near-term inflows and outflows of spendable resources and on balances of spendable resources available at the end of the fiscal year. Such information is useful in evaluating whether there are more or less financial resources that can be spent in the near future to finance City services.

The Governmental Fund Balance Sheet and the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances present separate columns of financial data for the General Fund and the Capital Improvement Reserve Fund. These are the City's major governmental funds. Data from the remaining governmental funds are combined and presented in a single, aggregated column in the fund statements. Individual fund data for each of the non-major governmental funds is provided in the form of combining statements following the basic financial statements.

Because the focus of governmental fund financial statements is narrower than that of the government-wide financial statements, it is useful to compare information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. This gives readers a better understanding of the long-term impact of the government's near-term financing decisions. Both the Governmental Fund Balance Sheet and the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances provide a reconciliation to the governmental activities column in the government-wide statements to facilitate this comparison.

The City maintains budgetary controls over its governmental funds. Budgetary controls ensure compliance with legal provisions embodied in the annual appropriated budget. Governmental fund budgets are established in accordance with state law, and are adopted on a fund level. General Fund budget variances are reviewed later in this discussion and analysis.

Proprietary funds are used to account for the City's business-type activities where all, or part, of the costs of activities are supported by fees and charges that are paid directly by those who benefit from the activities. The fund level statements provide the same type of information as the government-wide financial statements, only in more detail, since both apply the accrual basis of accounting. In comparing the total assets and total liabilities between the two statements, you will notice only slight differences. One notable difference is that the "due from other funds" (asset) and the "due to other funds" (liability) are combined in a single line called "internal balances" in the asset section of the government-wide statement of net position.

The City reports two types of proprietary funds: enterprise and internal service funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Internal service funds are used to report activities that provide supplies and services to various City departments and to accumulate and allocate the associated costs of providing these supplies and services to the various functions. The revenues and expenses of internal service funds that are duplicated in other funds are eliminated in the government-wide statements. Because the remaining balances primarily benefit governmental, rather than business-type activities, the internal service funds are aggregated and included within governmental activities in the government-wide statements.

The Proprietary Fund Balance Sheet and the Proprietary Fund Statement of Revenues, Expenses, and Changes in Fund Equity present separate columns of financial data for the Water and Sewer Utility Fund and the Transit Fund. These are the City's major enterprise funds. Data from the remaining enterprise funds are combined and presented in a single, aggregated column in the fund statements. Individual fund data for each of the non-major enterprise funds, as well as the internal service funds, are provided in the form of combining statements following the basic financial statements.

Fiduciary Funds are used to account for resources held by the City in a trustee capacity, or as an agent for outside individuals or private organizations. Fiduciary funds are not reported in the government-wide financial statements because the resources of those funds are not available to support the City's own operations. 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.

NOTES TO THE FINANCIAL STATEMENTS

The notes provide additional information that is essential to a full understanding of the data provided, and are an integral part of the government-wide and fund financial statements.

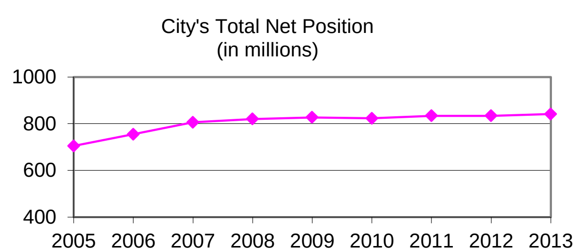
OTHER INFORMATION

In addition to the basic financial statements and accompanying notes, this report also contains certain required supplementary information concerning the City's Fire and Police Pension Funds and Other Post Employment Benefit Funds.

The combining statements referred to earlier for non-major governmental and enterprise funds, as well as internal services funds, are presented immediately following the required supplementary information.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, changes in net position over time may serve as a useful indicator of a government's financial position. The City's total net position at December 31, 2012, was $834.0 million December 31, 2013, was $841.2 million. As the chart below illustrates, the City's net position has been fairly constant since 2007.



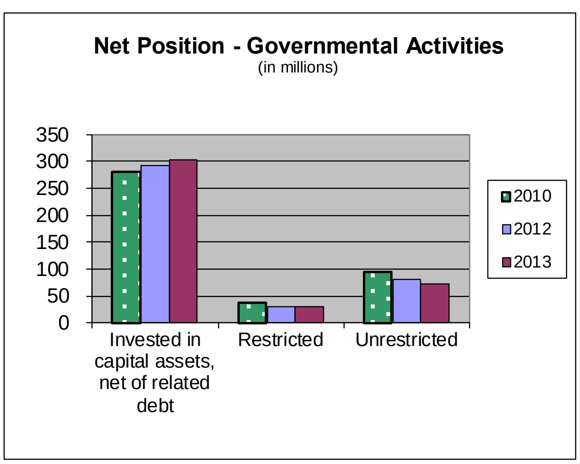
Elements contributing to the change in net position are discussed in the Governmental and Business-Type Activities Analysis sections. The table below presents a condensed version of the Government-Wide Statement of Net Position.

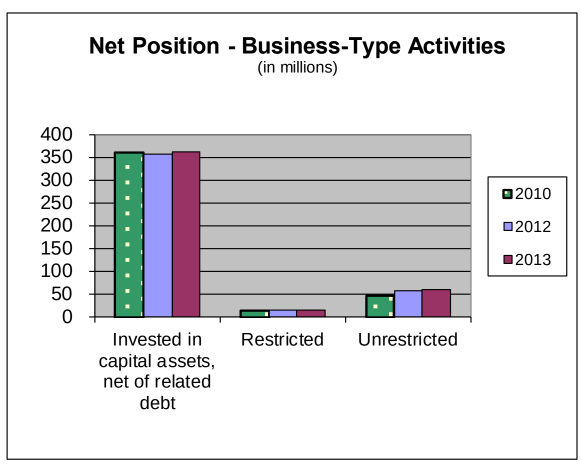
Table 1
City of Everett's Net Position
(in thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2013	**2012**	**2013**	**2012**	**2013**	**2012**
Current and other assets	$ 143,936	$ 151,036	$ 82,045	$ 89,474	$ 225,981	$ 240,510
Capital assets, net	326,477	317,280	559,743	555,465	886,220	872,745
Total assets	470,413	468,316	641,788	644,939	1,112,201	1,113,255
Total deferred outlows of resources	-	-	1,843	-	1,843	-
Long-term liabilities	53,993	56,572	200,644	206,232	254,637	262,804
Other liabilities	12,204	9,397	6,045	7,075	18,249	16,472
Total liabilities	66,197	65,969	206,689	213,307	272,886	279,276
Net position						
Net investment in capital assets	301,733	291,590	362,486	358,378	664,219	649,968
Restricted	29,467	30,928	12,616	14,894	42,083	45,822
Unrestricted (deficit)	73,015	79,829	61,839	58,360	134,854	138,189
Total net position	**$ 404,215**	**$ 402,347**	**$ 436,941**	**$ 431,632**	**$ 841,156**	**$ 833,979**

As depicted in the charts below, the majority of the City's net position is invested in capital assets, which are used to provide services to citizens. Capital assets include streets, water/sewer lines and related infrastructure, land, buildings, equipment, etc., less any related outstanding debt used to acquire those assets. It should be noted that although the investment in capital assets is reported net of related debt, resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

Restricted assets represent resources that are subject to external restrictions on how they may be used. The Statement of Net Position, further breaks out restricted assets into major categories. For example, $14.0 million is restricted for community development projects that receive grant or real estate excise tax funding and must comply with grant guidelines and state law limitations. Other examples include the assets obtained through the Emergency Medical Services levy and criminal justice grant funding, which are restricted to public safety use. The 2013 year-end unrestricted net position of $73.0 million in governmental activities and $61.2 million in business-type activities may be used to meet ongoing obligations.





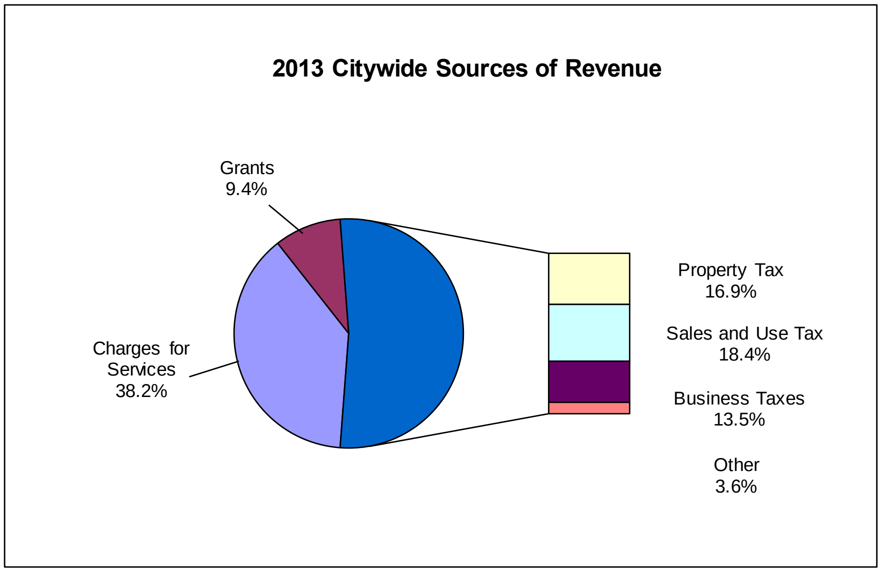
At December 31, 2013, the City reports positive balances in all three categories of net position for both governmental and business-type activities. The same situation held true for the past nine years.

The table below contains condensed financial information derived from the government-wide statement of activities comparing the current year to the prior year.

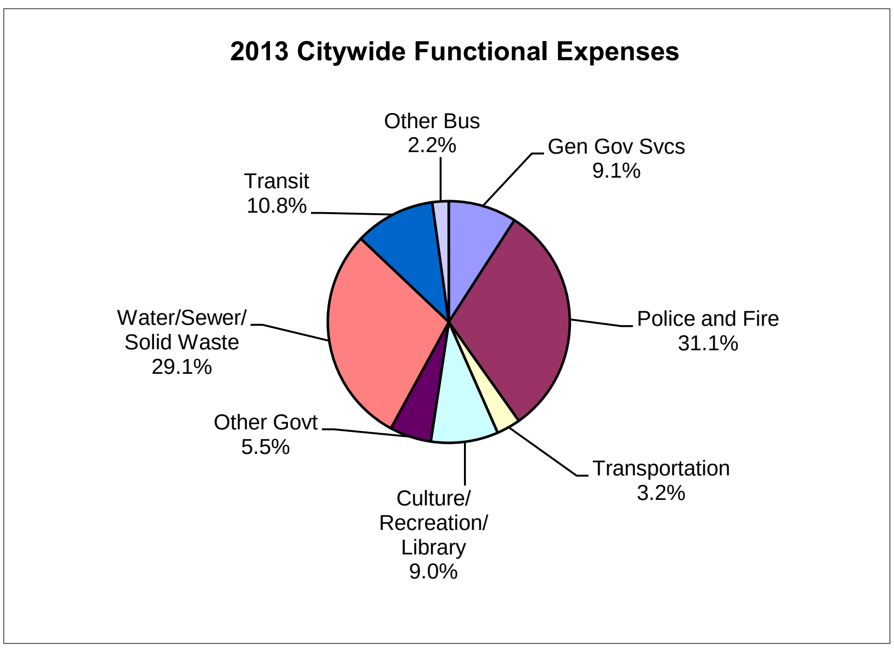
Table 2
City of Everett's Changes in Net Position
(in thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2013	**2012**	**2013**	**2012**	**2013**	**2012**
Revenues						
Program revenues:						
Charges for services	$ 10,605	$ 10,311	$ 76,718	$ 73,273	$ 87,323	$ 83,584
Operating grants and contributions	3,352	2,131	1,522	1,855	4,874	3,986
Capital grants and contributions	7,332	3,349	9,321	4,426	16,653	7,775
General revenues:						
Property taxes	38,606	38,766	-	-	38,606	38,766
Sales taxes	25,596	24,605	16,380	15,739	41,976	40,344
Business taxes	30,706	29,331	98	100	30,804	29,431
Other taxes	8,157	8,681	235	239	8,392	8,920
Interest and investment earnings	(2,902)	2,406	(3,130)	1,652	(6,032)	4,058
TOTAL REVENUES	$ 121,452	$ 119,580	$ 101,144	$ 97,284	$ 222,596	$ 216,864
Program Expenses						
Governmental activities:						
General government services	$ 19,462	$ 25,422	$ -	$ -	$ 19,462	$ 25,422
Police	36,953	37,680	-	-	36,953	37,680
Fire	29,429	29,279	-	-	29,429	29,279
Engineering & construction services	3,787	3,591	-	-	3,787	3,591
Transportation	6,788	8,553	-	-	6,788	8,553
Community services	7,660	7,574	-	-	7,660	7,574
Library	5,781	5,066	-	-	5,781	5,066
Culture and recreation	13,426	12,645	-	-	13,426	12,645
Interest on long-term debt	402	812	-	-	402	812
Business-type activities:						
Water	-	-	30,448	29,673	30,448	29,673
Sewer	-	-	30,774	28,379	30,774	28,379
Solid waste	-	-	987	794	987	794
Parking	-	-	287	283	287	283
Transit	-	-	22,943	23,273	22,943	23,273
Golf	-	-	4,370	4,146	4,370	4,146
TOTAL EXPENSES	$ 123,688	$ 130,622	$ 89,809	$ 86,548	$ 213,497	$ 217,170
Increase in net position before transfers	$ (2,236)	$ (11,042)	$ 11,335	$ 10,736	$ 9,099	$ (306)
Transfers	4,282	3,974	(4,282)	(3,974)	-	-
Increase in net position	$ 2,046	$ (7,068)	$ 7,053	$ 6,762	$ 9,099	$ (306)
Net position - beginning	402,347	409,415	431,632	424,870	833,979	834,285
Change in accounting principle	(178)	-	(1,744)	-	(1,922)	-
Net position - ending	$ 404,215	$ 402,347	$ 436,941	$ 431,632	$ 841,156	$ 833,979

As shown in the chart below, taxes made up 52.4% of total revenue received by the City as a whole in 2013. Total tax revenues increased by $1.7 million, mostly due to increases in sales and business taxes, which are beginning to reflect improvements in the overall economy. Of the 38.2% in charges for services, 87.9% is from business-type activities.



The following chart compares the functional expenses of the City. The largest expense is the combined police and fire functions, making up nearly one third of the City's total expenses. A close second is the combined water/sewer/wastewater functions.

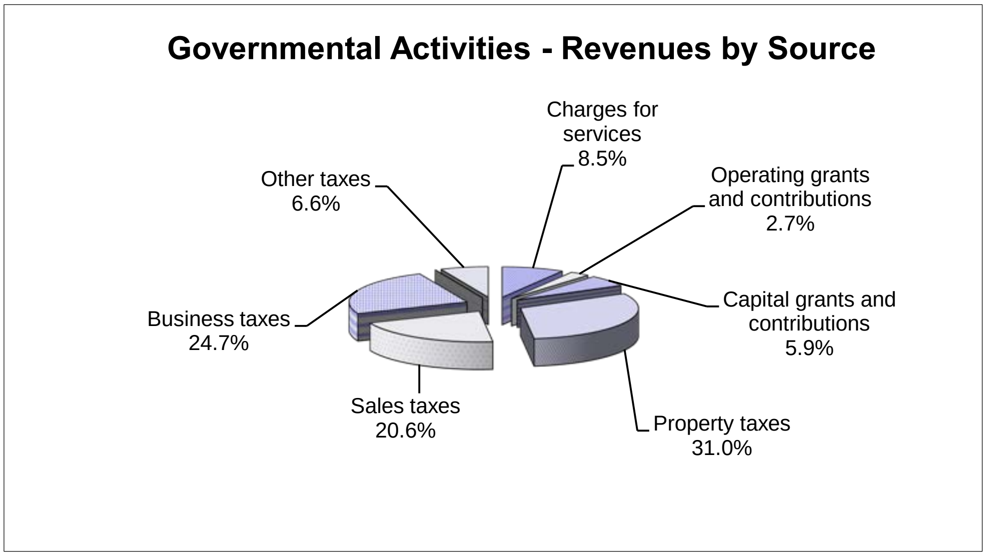


GOVERNMENTAL ACTIVITIES ANALYSIS

As shown in the Statement of Activities, total expenses for all governmental activities in 2013 was $123.7 million. Of this amount, $21.3 million was paid for either by those who directly benefited from the programs or by other governments and organizations that subsidized certain programs with grants and contributions. The net expense (total expenses less program revenues) of $102.4 million was the cost of governmental activity services paid primarily by City taxpayers.

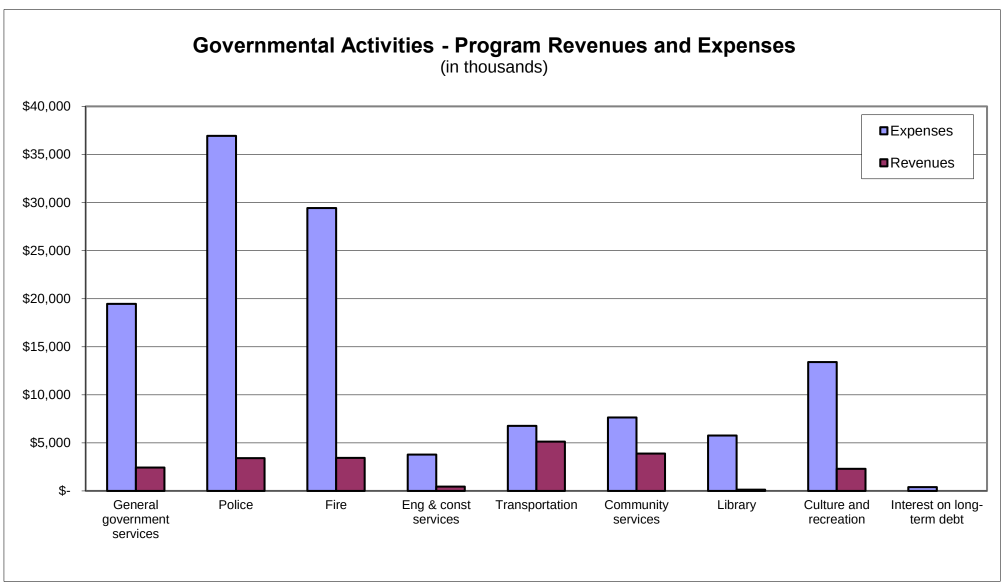
Revenues

Total governmental activity revenues (excluding transfers) remain unchanged from last year. As the economy continued to improve, the sales and business tax revenues increased by $2.4 million, which was offset by decrease in interest and investment earnings, reflecting the low interest rate environment.



Expenses

Total governmental activity expenses decreased by $6.9 million. General Government Services expense decreased by $6.0 million. The 2012 expense was higher as a result of $2.9 million one time transfer made to the self-insurance fund to increase the reserve and $3.1 million increase in the City's pollution remediation obligation. Police and fire activities account for nearly 53.7% of governmental activity expenses. In 2013, police expenses decreased by $726K and fire expenses increased by $150K.



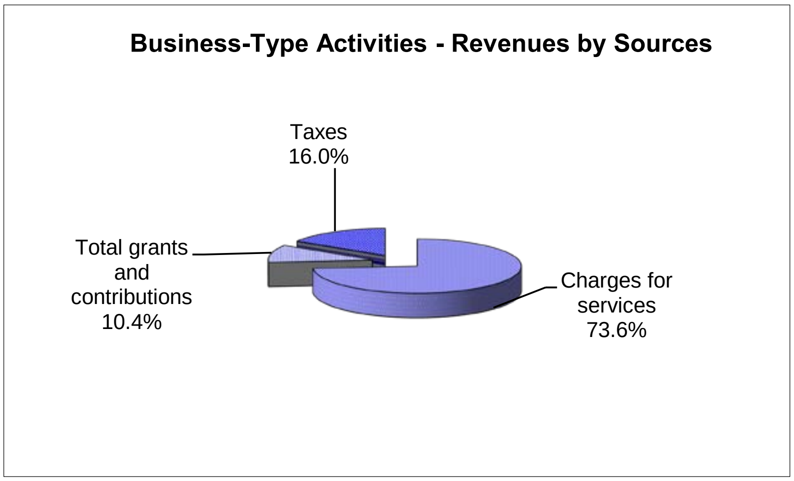
BUSINESS-TYPE ACTIVITIES ANALYSIS

In 2013, program revenues covered $87.6 million of the $89.8 million in business-type activity expenses, leaving a net expense of $2.2 million paid primarily by City taxpayers.

Revenues

Total business-type revenues rose by $7.0 million from the prior year. As shown in the chart below, the majority of business-type activity revenue is from charges for services, which grew by $3.4 million from 2012, due to an increase in water consumption and sewer and solid waste uses. This increase was offset by decrease in interest and investment earnings. In 2013, the City issued $62.145 million in Water and Sewer Revenue Refunding Bonds, refinancing the outstanding 2003 and 2005 Water and Sewer Revenue Refunding Bonds, to achieve a net present value of savings in the amount of $10.5 million, or 15%, through lower interest rates. Water and Sewer revenue debt is issued for the purpose of paying the cost of additions, improvements and betterment of the system.

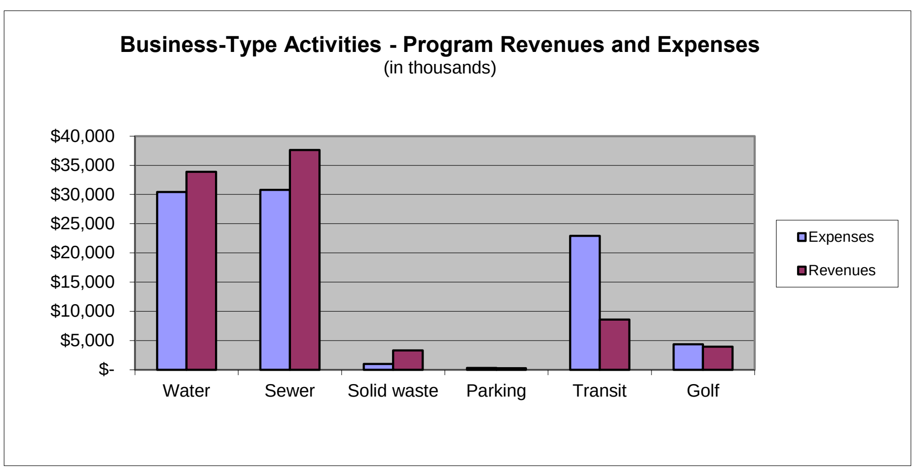
Operating Grants and Capital Grants revenue increased by $4.5 million from the prior year. Grant revenue can fluctuate widely from year to year based on a number of factors, including the availability of federal and state grants, whether the City has applied for and received grant awards, and whether the City has major capital projects in progress.



Expenses

Total business-type expenses increased by $3.3 million from 2012, as a result of increase in repairs and maintenance expenses related to City's water filtration plant.

The chart below depicts the revenues and expenses for each of the City's business-type programs. As shown, Water, Sewer, and Solid Waste each generated enough program revenue (primarily user fees) to cover operating costs, while Transit, Golf, and Parking did not. These activities are discussed in more detail in the Business-type Funds Analysis section.



FUND-LEVEL FINANCIAL ANALYSIS

GOVERNMENTAL FUNDS

As discussed, governmental funds are reported in the fund statements with a short-term, spendable resources focus. This information is useful in assessing whether resources available at year-end are adequate to cover upcoming financing requirements.

GASB Statement No. 54 established fund balance classifications that comprise a hierarchy based on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The five components of fund balance are as follows:

- Non-spendable fund balance - examples are inventory and prepaid items.
- Spendable fund balance:
    - Restricted fund balance: externally enforceable legal restrictions such as those related to traffic mitigation revenue and grant receipts.
    - Committed fund balance: funds that can only be used for purposes pursuant to constraints imposed by formal action of the City Council.
    - Assigned fund balance: amounts that reflect the City intended use of resources in the special revenue, capital projects, and debt service funds.
    - Unassigned fund balance: residual net resources that are not properly classified in one of the above four categories.

At year-end, the governmental funds reported a combined ending fund balance of $105.5 million. (refer to Governmental Funds Balance Sheet). This is a $6.0 million decrease from the prior year-end. The government-wide Statement of Activities shows an increase in net position of $2.0 million. The difference is due primarily to the way capital assets are reported. In the fund financial statements, capital expenditures are reported as current expenditures--thereby directly reducing available resources (fund balance). At the government-wide level of reporting, the same capital expenditures are capitalized and are included in the net position balance.

Approximately 62.6% of the total ending fund balance of governmental funds is classified as either assigned or unassigned, which means the funds are available for spending at the City's discretion.

General Fund – The general fund is the City's primary operating fund and the largest funding source for day-to-day service delivery. As a result of GASB Statement No. 54 implementation, several funds previously classified as special revenue funds are now combined with the general fund. Without the consolidation, the fund balance decreased by $1.3 million or 4.7%. Tax revenues grew by $2.6 million and expenditures grew by $3.9 million. Further discussion regarding changes in tax revenues and expenditures appear earlier in this document under the Governmental Activities Analysis section.

Capital Improvement Reserve Fund – The City's other major governmental fund recorded a decrease of $1.9 million in fund balance. As the name indicates, this fund accumulates money to pay for capital projects; therefore, expenditures and fund balance can fluctuate widely from year to year.

Other Governmental Funds – Total fund balance for other governmental funds decreased by $1.1 million, primarily due to activity in Real Estate Excise Tax Fund 154.

BUSINESS-TYPE FUNDS

Water/Sewer Utility Fund – This fund is the largest business-type fund in the City, accounting for $372.6 million, or 85.3%, of the business-type net position. Of this amount, $296.8 million is invested in capital assets, $13.1 million is classified as restricted (primarily for debt service), and $62.6 million is classified as unrestricted. The fund's 2013 net income, before contributions and transfers, was $3.7 million, which is $4.5 million less than 2012. Increases in charge for services were offset by the decrease in interest revenue and increases operating expenses.

Transit Fund – This is the City's other major business-type fund. It reported a $19.2 million operating loss in 2013 (before non-operating revenues and capital contributions). The loss was reduced by the voter approved 0.6% sales tax, which is dedicated for transit purposes; 2013 collections totaled $16.6 million. Grants in the amount of $5.7 million also mitigated the loss.

Other Business-type Funds – The Golf Fund reported net loss of $368,355 compared to net loss of $245,209 in 2012. Management continues to implement elements of its business plan to increase revenues and decrease expenses.

GENERAL FUND BUDGETARY HIGHLIGHTS

Original budget compared to final budget

The final General Fund revenue budget (including transfers-in) was $1.7 million, or 1.9% greater than the original budget. The majority of the increase ($1.3 million) was in grant revenue, resulting from re-appropriations from the 2012 budget and new grants awarded in 2013.

The final expenditure budget (including transfers-out) was $8.5 million or 9.4% greater than the original budget. This included increases to grant related expenditure budgets to match the grant revenue noted above. It also included reappropriations from the 2012 budget of $1.6 million for contingencies and obligations related to potential tax refunds and several land slide repairs, and $5.1 million for labor contract settlements, and prefunding insurance reserves, the overlay program, and MVD reserve to begin reducing the projected 2014 budget deficit. The $5.1 million re-appropriation for prefunding 2014 expenditures was possible as a result of department's efforts to reduce expenditures in 2012. Most departments achieved expenditure reductions by holding open vacant positions.

Actual results compared to final budget

General Fund revenue came in under the final amended budget by $1.1 million or.1.2%. The majority of this amount is due underperformance in utility taxes and to grant revenue not yet earned. Grant revenue is booked only after the related expenditures are incurred.

Expenditures ended the year $5.7 million or 5.8% under budget. $1.6 million of this amount was due to under spending the contingency that was set aside at the beginning of the year. Grant-related under-expenditures account for $465,000 of the under budget amount. $2.8 million of the under budget amount was from labor savings as the City continued to hold open several vacant positions. These amounts were re-appropriated to the 2014 budget as the City continues works to close budget gaps in this slow-growth economy.

CAPITAL ASSET AND DEBT ADMINISTRATION

CAPITAL ASSETS

As of December 31, 2013, the City of Everett's investment in capital assets, including construction in progress, for its governmental and business-type activities amounted to $886.2 million. The year-end balance represents a net increase (additions less retirements and depreciation) of $13.4 million from the end of last year.

Table 3
City of Everett's Capital Assets
(net of accumulated depreciation)
(in thousands)

	Governmental Activities		Business-Type Activities		Total Activities	
	2013	2012	2013	2012	2013	2012
Land	$ 60,556	$ 59,867	$ 33,907	$ 33,704	$ 94,463	$ 93,571
Buildings	66,402	56,551	125,116	122,921	191,518	179,472
Improvements other than buildings	14,807	15,424	349,169	321,437	363,976	336,861
Infrastructure	170,897	150,229	1,726	1,822	172,623	152,051
Machinery and equipment	9,716	8,413	15,122	10,966	24,838	19,379
Intangibles	353	372	10,405	10,667	10,758	11,039
Construction in progress	3,746	26,424	24,299	53,947	28,045	80,371
	$ 326,477	$ 317,280	$ 559,744	$ 555,464	$ 886,221	$ 872,744

Major governmental capital asset investments for the year included (in millions):

- 2013 overlay program..$ 2.1
- 112th St SE – Silver Lk Rd to SR 527 Improvement............................1.5
- Municipal Court Replacement...1.2
- SR 99/Evergreen Way Improvement 1.2
- Fire Administration Building Improvement 1.2

Major business-type capital asset investments for the year included (in millions):

- Sewer Lift Station #24 Replacement..$ 3.7
- WPCF Expansion, Phase B 2.2
- 112th St SE Water Main Improvement...1.2
- Water Main Design 0.9
- Powder Mill Gulch Stream Stabilization 0.9

Additional information about the City of Everett's capital assets can be found in Note 6 to the financial statements.

DEBT ADMINISTRATION

As shown in the table below, the City's total outstanding debt at December 31, 2013, was $209.9 million. Of this amount, $28.8 million is bonded debt backed by the full faith and credit of the City, $147.9 million is bonded debt secured solely by water and sewer user fees, and $33.2 million is in Public Works Trust Fund and State Revolving Fund loans.

The City's total debt outstanding decreased by a net amount (new issues less principal payments and refundings) of $11.9 million from the prior year end. The major debt transactions that contributed to this change are detailed below.

- The City issued $62.1 million in Water and Sewer Refunding Bonds in 2013. The proceeds were used to advance refund $35.2 million outstanding 2003 Water and Sewer Revenue Refunding Bonds and advance refund $31.9 million of certain maturities of 2005 Water and Sewer Revenue Refunding Bonds.
- The City redeemed $4.6 million of Revenue debt in 2013.

Table 4
City of Everett's Outstanding Debt
(in thousands)

	Governmental Activites		Business-Type Activities		Total Activities	
	2013	2012	2013	2012	2013	2012
General obligation bonds	$ 22,835	$ 23,490	$ 6,000	$ 7,000	$ 28,835	$ 30,490
Revenue debt	-	-	147,880	156,055	147,880	156,055
Other long-term debt	992	1,212	32,200	34,022	33,192	35,234
	$ 23,827	$ 24,702	$ 186,080	$ 197,077	$ 209,907	$ 221,779

The City works to maintain high credit ratings to assist in obtaining financing as the lowest possible cost. The City's bond rating, according to Standard & Poor's, is AA+ for both its general obligation and revenue debt.

Additional details about the City's long-term debt can be found in Note 10 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Principal factors influencing the City's 2014 budget included: continued sluggish retail sales; a decrease in utility taxes due to the loss of a major employers, an increase in business revenues stemming mainly from the aerospace sector, and property tax revenue growth limited to 1% on the base, plus adjustments for new construction and annexations.

Other economic factors considered when preparing the City's 2014 budget included:

- Overall economic activity is expected to continue to be low.
- Population is expected to increase by 1% in 2014.
- The inflation rate (as measured by the June to June Seattle/Urban Consumer Price Index) is expected to remain low. For 2013, it was 1.4%.
- Interest rates are expected to remain low through 2014.

Some of the specific steps taken to balance the 2014 budget included: freezing departmental M&O budgets, prepayments of reserve contributions from prior year underexpenditures, deferrals of projects and equipment replacements, and suspension of contributions to our LEOFF1 police and fire pension and OPEB funds.

REQUESTS FOR FINANCIAL INFORMATION

This financial report is designed to provide our citizens, creditors, investors, and other interested parties with a general overview of the City's finances and to show the City's accountability for the financial resources it receives. If you have any questions about this report, or need additional financial information, please contact the Finance Department at 2930 Wetmore Avenue, Suite 9H, Everett, WA 98201.

STATEMENT OF NET POSTION
DECEMBER 31, 2013

	Primary Government			Component Unit
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	EVERETT PUBLIC FACILITIES DISTRICT
ASSETS				
Cash and cash equivalents	$ 15,632,917	$ 10,729,535	$ 26,362,452	$ 1,203,429
Deposits with trustees	54,990	165,565	220,555	-
Investments	81,168,156	54,978,763	136,146,919	-
Receivables, net	28,357,308	12,851,693	41,209,001	509,057
Internal balances	11,771,683	(11,771,683)	-	-
Inventories	541,240	1,048,794	1,590,034	-
Prepayments	1,282,285	110,901	1,393,186	318,646
Net pension assets	3,239,556	-	3,239,556	-
Restricted:				
Cash and cash equivalents	-	3,092,730	3,092,730	2,329,333
Investments	-	10,165,842	10,165,842	-
Special assessments	123,454	2,520	125,974	-
Investment in joint venture	1,764,755	669,332	2,434,087	-
Land	60,555,865	33,907,088	94,462,953	257,074
Construction in progress	3,745,925	24,299,394	28,045,319	-
Capital assets, net (Note 6)	262,174,793	501,537,261	763,712,054	40,696,150
TOTAL ASSETS	**$ 470,412,927**	**$ 641,787,735**	**$ 1,112,200,662**	**$ 45,313,689**
DEFERRED OUTFLOWS OF RESOURCES				
Deferred charge on refunding	**$ -**	**$ 1,843,078**	**$ 1,843,078**	**$ -**
COMBINED ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	**$ 470,412,927**	**$ 643,630,813**	**$ 1,114,043,740**	**$ 45,313,689**
LIABILITIES				
Accounts payable and other current liabilities	$ 10,467,519	$ 5,797,785	$ 16,265,304	$ 841,094
Unearned revenues	143,310	246,804	390,114	1,012,884
Net OPEB obligations	1,594,305	-	1,594,305	-
Non-current liabilities (Note 12):				
Due within one year	12,148,849	10,611,953	22,760,802	1,095,000
Due in more than one year	41,843,678	190,033,044	231,876,722	49,774,590
COMBINED LIABILITIES AND DEFERRED OUTFLOWS OF RESOURCES	**$ 66,197,661**	**$ 206,689,586**	**$ 272,887,247**	**$ 52,723,568**
NET POSITION				
Net Investment in capital assets	$ 301,733,296	$ 362,485,744	$ 664,219,040	$ (9,916,365)
Restricted for:				
Debt service	236,242	13,204,386	13,440,628	2,329,333
Public safety	8,254,588	-	8,254,588	-
Transportation	3,966,592	-	3,966,592	-
Parks and recreation	2,247,448	-	2,247,448	-
Community development projects	14,013,220	-	14,013,220	-
Tourism	418,676	-	418,676	-
Economy	330,508	-	330,508	-
Government regulation	-	54,186	54,186	-
Special assessments	-	2,520	2,520	-
Unrestricted	73,014,696	61,194,391	134,209,087	177,153
TOTAL NET POSITION	**$ 404,215,266**	**$ 436,941,227**	**$ 841,156,493**	**$ (7,409,879)**

The accompanying notes are an integral part of this statement.

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2013
(PAGE 1 OF 2)

		Program Revenues		
FUNCTIONS/PROGRAMS	**Expenses**	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**
Primary government:				
Governmental activities:				
General government services	$ 19,462,237	$ 1,287,012	$ 421,730	$ 739,893
Police	36,953,341	2,439,542	916,581	66,828
Fire	29,429,312	1,457,689	123,586	1,877,271
Engineering & construction services	3,786,687	459,583	-	-
Transportation	6,787,720	497,878	-	4,644,863
Community services	7,659,733	2,355,384	1,546,440	-
Library	5,781,183	99,250	35,569	420
Culture and recreation	13,426,236	2,008,219	308,203	3,209
Interest on long-term debt	402,235	-	-	-
Total governmental activities	**123,688,684**	**10,604,557**	**3,352,109**	**7,332,484**
Business-type activities:				
Water	30,447,916	32,820,242	-	1,069,626
Sewer	30,774,660	34,502,663	364,244	2,734,797
Solid waste	986,840	2,461,856	31,669	792,392
Parking	287,032	264,095	-	-
Transit	22,942,885	2,876,207	998,620	4,723,743
Golf	4,370,102	3,793,021	127,125	-
Total business-type activities	**89,809,435**	**76,718,084**	**1,521,658**	**9,320,558**
Total primary government	**$ 213,498,119**	**$ 87,322,641**	**$ 4,873,767**	**$ 16,653,042**
Component units:				
Everett Public Facilities District	**$ 10,961,600**	**$ 8,093,443**	**$ 2,300,890**	**$ -**

General revenues:

Property taxes

Sales taxes

Business taxes

Excise taxes

Allocation of state-imposed taxes

Interest and investment earnings

Transfers

Total general revenues, special items, and transfers

Change in net position

Net position - beginning

Change in accounting principle

Net position - ending

The accompanying notes are an integral part of this statement.

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2013
(PAGE 2 OF 2)

NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS

Primary Government			Component Unit
Governmental Activities	Business-Type Activities	Total	Everett Public Facilities District
$ (17,013,602)	$ -	$ (17,013,602)	
(33,530,390)	-	(33,530,390)	
(25,970,766)	-	(25,970,766)	
(3,327,104)	-	(3,327,104)	
(1,644,979)	-	(1,644,979)	
(3,757,909)	-	(3,757,909)	
(5,645,944)	-	(5,645,944)	
(11,106,605)	-	(11,106,605)	
(402,235)	-	(402,235)	
(102,399,534)	**-**	**(102,399,534)**	
-	3,441,952	3,441,952	
-	6,827,044	6,827,044	
-	2,299,077	2,299,077	
-	(22,937)	(22,937)	
-	(14,344,315)	(14,344,315)	
-	(449,956)	(449,956)	
-	**(2,249,135)**	**(2,249,135)**	
$ (102,399,534)	**$ (2,249,135)**	**$ (104,648,669)**	
			$ (567,267)
38,606,082	-	38,606,082	
25,596,982	16,380,028	41,977,010	
30,706,072	98,650	30,804,722	
4,070,079	-	4,070,079	
4,086,888	235,158	4,322,046	
(2,901,849)	(3,129,771)	(6,031,620)	
4,281,872	(4,281,872)	-	
104,446,126	**9,302,193**	**113,748,319**	
2,046,592	7,053,058	9,099,650	(567,267)
402,346,677	431,632,296	833,978,973	(6,842,612)
(178,003)	(1,744,127)	(1,922,130)	-
$ 404,215,266	**$ 436,941,227**	**$ 841,156,493**	**$ (7,409,879)**

The accompanying notes are an integral part of this statement.

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2013

	GENERAL FUND	CAPITAL IMPROVEMENT RESERVE FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS				
Cash and cash equivalents	$ 6,720,377	$ 2,755,655	$ 3,552,188	$ 13,028,220
Change and imprest funds	49,299	-	-	49,299
Deposits with trustee	54,990	-	-	54,990
Investments	35,144,963	13,583,709	19,958,008	68,686,680
Receivables, net				
Taxes	10,373,147	174,539	174,539	10,722,225
Customer accounts	85,507	35,161	233,695	354,363
Interest	77,706	13,412	41,999	133,117
Due from other funds	62,990	-	77,373	140,363
Interfund receivable	99,550	-	855,000	954,550
Due from other governmental units	535,002	-	577,235	1,112,237
Prepayments	917,652	-	-	917,652
Special assessments - non-current	-	-	123,454	123,454
Notes/contracts receivable	1,140,000	-	13,603,859	14,743,859
Advances to other funds	7,319,168	-	-	7,319,168
TOTAL ASSETS	**$ 62,580,351**	**$ 16,562,476**	**$ 39,197,350**	**$ 118,340,177**
LIABILITIES				
Wages payable	$ 5,039,030	$ -	$ 711,536	$ 5,750,566
Accounts payable	1,752,027	-	615,239	2,367,266
Due to other funds	77,373	58,776	329	136,478
Interfund payable	-	-	888,550	888,550
Due to other governmental units	83,681	-	27	83,708
Custodial accounts	964,356	-	-	964,356
Revenues collected in advance	66,282	-	-	66,282
Other liabilities	146,709	-	1,870	148,579
Unearned Revenue	-	-	77,028	77,028
TOTAL LIABILITIES	8,129,458	58,776	2,294,579	10,482,813
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenues-property taxes	2,249,943	-	-	2,249,943
Unavailable revenues-special assessments	-	-	123,454	123,454
Unavailable revenues-other	11,400	-	-	11,400
TOTAL DEFERRED INFLOWS OF RESOURCES	2,261,343	0	123,454	2,384,797
FUND BALANCES				
Nonspendable	9,376,820	-	434,160	9,810,980
Restricted	-	-	29,467,274	29,467,274
Committed	158,569	-	-	158,569
Assigned	-	16,503,700	6,977,218	23,480,918
Unassigned	42,654,161	-	(99,335)	42,554,826
TOTAL FUND BALANCES	52,189,550	16,503,700	36,779,317	105,472,567
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOUCES AND FUND BALANCES	**$ 62,580,351**	**$ 16,562,476**	**$ 39,197,350**	**$ 118,340,177**

The accompanying notes are an integral part of this statement.

RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
DECEMBER 31, 2013

Total Fund Balances reported on the Balance Sheet - Governmental Funds	$ 105,472,567
Amounts reported for governmental activities in the Balance Sheet - Governmental Funds differ from amounts reported in the government-wide Statement of Net Position by the following items:	
Capital assets reported in the government-wide Statement of Net Position not reported in the Balance Sheet - Governmental Funds	325,130,362
Assets and liabilities of internal service funds included in governmental activities in the government-wide Statement of Net Position not reported in the Balance Sheet - Governmental Funds	6,736,083
Unearned revenues reported in the Balance Sheet - Governmental Funds not reported in the government-wide Statement of Net Position	2,384,797
Accrued receivables reported in the government-wide Statement of Net Position not reported in the Balance Sheet - Governmental Funds	2,264,873
Net investment in joint venture reported in the government-wide Statement of Net Position not reported in the Balance Sheet - Governmental Funds	1,764,755
Net pension asset and net OPEB liability reported in the government-wide Statement of Net Position not reported in the Balance Sheet - Governmental Funds	1,645,251
Discount on notes receivable reported in the government-wide Statement of Net Position not reported in the Balance Sheet - Governmental Funds	(1,080,503)
Accrued pollution remediation liability reported in the government-wide Statement of Net Position not reported in the Balance Sheet - Governmental Funds	(5,008,950)
Long-term debt reported in the government-wide Statement of Net Position not reported in the Balance Sheet - Governmental Funds	(35,093,969)
Total Net Position reported on the government-wide Statement of Net Position	$ 404,215,266

The accompanying notes are an integral part of this statement.

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2013

	GENERAL FUND	CAPITAL IMPROVEMENT RESERVE FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES				
Taxes	$ 86,819,707	$ 1,227,466	$ 10,337,066	$ 98,384,239
Licenses and permits	1,322,961	-	-	1,322,961
Intergovernmental revenues	3,851,492	-	10,400,656	14,252,148
Charges for services	9,028,450	-	1,858,653	10,887,103
Fines and forfeits	1,828,514	-	8,659	1,837,173
Other revenues	(34,816)	(297,173)	6,955	(325,034)
Total revenues	**102,816,308**	**930,293**	**22,611,989**	**126,358,590**
EXPENDITURES				
Current:				
General government services	23,532,288	-	465,116	23,997,404
Security of persons and property	56,733,514	-	8,095,580	64,829,094
Physical environment	228,636	-	-	228,636
Transportation	3,712,324	-	2,274,306	5,986,630
Economic environment	5,219,949	-	1,602,887	6,822,836
Mental and physical health	925,972	-	-	925,972
Culture and recreation	14,589,991	500,000	800,940	15,890,931
Capital outlay	3,996,212	-	12,582,245	16,578,457
Debt service:				
Principal	-	-	874,315	874,315
Interest	1,292	-	537,078	538,370
Total Expenditures	**108,940,178**	**500,000**	**27,232,467**	**136,672,645**
Excess (deficiency) of revenues over (under) expenditures	(6,123,870)	430,293	(4,620,478)	(10,314,055)
OTHER FINANCING SOURCES (USES)				
Disposition of capital assets	18,678	-	-	18,678
Transfers in	5,264,947	385,477	7,372,040	13,022,464
Transfers out	(2,172,098)	(2,694,598)	(3,894,712)	(8,761,408)
Total other financing sources (uses)	**3,111,527**	**(2,309,121)**	**3,477,328**	**4,279,734**
Net change in fund balances	(3,012,343)	(1,878,828)	(1,143,150)	(6,034,321)
Fund balances - beginning	55,201,893	18,382,528	37,922,467	111,506,888
FUND BALANCES - ENDING	**$ 52,189,550**	**$ 16,503,700**	**$ 36,779,317**	**$ 105,472,567**

The accompanying notes are an integral part of this statement.

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED DECEMBER 31, 2013

Net change in fund balances for total governmental funds reported on the Statement of Revenues, Expenditures and Changes in Fund Balances	$	(6,034,321)
Amounts reported for governmental activities in the Statement of Revenues, Expenditures and Changes in Fund Balances differ from amounts reported in the government-wide Statement of Activities by the following items:		
Governmental funds report capital outlays as expenditures. Government-wide statements establish capital outlays as assets and allocate the cost of depreciable assets over their estimated useful lives as depreciation expense. This item represents the amount by which capital outlays exceeded (or, if negative, were less than) depreciation expense in the current period.		8,352,854
Governmental funds report the proceeds from the issuance of long-term debt (e.g., bonds and leases) as revenues and the associated issuance costs as expense in the period the debt is issued. Government-wide statements report long-term debt as a liability and amortize issuance costs as expense over the life of the obligation. This item represents the net effect of these differences in the treatment of long-term debt and related items during the current period.		961,055
Fair value of capital assets donated to the City reported in the government-wide statements during the current period.		894,946
Internal service funds are used by management to charge the costs of fleet management, management information systems, self-insurance, employee health benefits, and telecommunications to individual funds. The net revenue (expense) of certain activities of internal service funds is reported with governmental activities.		402,554
Increase (decrease) to accrued receivables in the government-wide statements during the current period.		209,283
Decrease (increase) to accrued pollution remediation liability in the government-wide statements during the current period.		25,000
Increase (decrease) to notes and interest receivable on the government-wide statements during the current period.		22,774
Disposition of capital assets (i.e., sales, trade-ins and transfers) results in a decrease in capital assets reported in the government-wide statements during the current period.		(50,648)
Increase (decrease) to investment in joint venture reported in the government-wide statements during the current period.		(112,489)
Increase (decrease) to non-current unearned revenue on the Balance Sheet - Governmental Funds during the current period.		(345,294)
Increase (decrease) to the combined net pension asset and net OPEB liability on the government-wide statements during the current period.		(2,279,122)
Change in net position of governmental activities reported on the government-wide Statement of Activities	$	2,046,592

The accompanying notes are an integral part of this statement.

STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2013

	BUSINESS TYPE ACTIVITIES				GOVERNMENTAL ACTIVITIES -
	WATER & SEWER UTILITY	TRANSIT	OTHER ENTERPRISE FUNDS	TOTAL	INTERNAL SERVICE FUNDS
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	$ 8,372,662	$ 1,703,397	$ 653,476	$ 10,729,535	$ 2,555,397
Deposits with Trustee	-	165,565	-	165,565	-
Investments	47,447,542	4,910,107	2,621,114	54,978,763	12,481,477
Bond covenant accounts:					
Restricted cash and cash equivalents	2,937,815	-	100,729	3,038,544	-
Restricted investments	10,165,842	-	-	10,165,842	-
Receivables, net					
Taxes	-	3,093,015	-	3,093,015	-
Customer accounts	5,902,041	10,292	263,054	6,175,387	30,507
Interest	103,792	7,193	2,832	113,817	10,632
Due from other funds	-	1,575	-	1,575	-
Interfund loans	959,200	-	-	959,200	-
Due from other governments	2,745,745	625,386	98,343	3,469,474	-
Prepayments	-	95,604	15,297	110,901	364,634
Inventory	921,945	-	126,849	1,048,794	541,240
Total Current Assets	79,556,584	10,612,134	3,881,694	94,050,412	15,983,887
NONCURRENT ASSETS					
Restricted cash and cash equivalents	54,186	-	-	54,186	-
Special assessments	2,520	-	-	2,520	-
Investment in joint venture	669,332	-	-	669,332	-
Land	22,507,655	10,439,811	959,622	33,907,088	-
Construction in progress	17,922,247	24,214	6,352,933	24,299,394	-
Capital assets, net of depreciation (Note 6)	447,626,057	45,548,740	8,362,464	501,537,261	1,346,221
Total Noncurrent Assets	488,781,997	56,012,765	15,675,019	560,469,781	1,346,221
TOTAL ASSETS	**568,338,581**	**66,624,899**	**19,556,713**	**654,520,193**	**17,330,108**
DEFERRED OUTFLOWS OF RESOURCES					
Deferred charge on refunding	1,843,078	-	-	1,843,078	-
TOTAL DEFFERED OUTFLOWS OF RESOURCES	**1,843,078**	**-**	**-**	**1,843,078**	**-**
COMBINED ASSETS AND DEFERRED OUTFLOW OF RESOURCES	**570,181,659**	**66,624,899**	**19,556,713**	**656,363,271**	**17,330,108**
LIABILITIES					
CURRENT LIABILITIES					
Wages and benefits payable	1,841,626	903,731	55,371	2,800,728	204,202
Accounts payable	2,062,229	399,739	412,554	2,874,522	923,126
Claims and judgments payable	-	-	-	-	6,918,964
Interest payable	660,638	-	17,395	678,033	-
Taxes payable	87,367	2,793	7,461	97,621	-
Due to other funds	3,885	-	-	3,885	1,575
Interfund loans payable	-	-	959,200	959,200	-
Due to other governments	-	603,074	-	603,074	-
Unearned revenue	-	50,566	196,238	246,804	-
Current portion of long-term debt	8,436,398	-	1,002,012	9,438,410	-
Other current liabilities	-	-	-	-	79,904
Total Current Liabilities	13,092,143	1,959,903	2,650,231	17,702,277	8,127,771
NONCURRENT LIABILITIES					
Capital Leases Payable	40,299	-	-	40,299	
General obligation bonds payable	-	-	5,010,900	5,010,900	-
Revenue bonds payable	154,472,051	-	-	154,472,051	-
Special assessment bonds payable	2,520	-	-	2,520	-
Advances from other funds	-	-	7,319,168	7,319,168	-
Loans payable	29,344,829	-	-	29,344,829	-
Claims and judgments payable	-	-	-	-	6,856,934
Other long-term liabilities	636,132	124,697	318,966	1,079,795	59,525
Total Noncurrent Liabilities	184,495,831	124,697	12,649,034	197,269,562	6,916,459
TOTAL LIABILITIES	197,587,974	2,084,600	15,299,265	214,971,839	15,044,230
COMBINED LIABILITIES AND DEFERRED INFLOW OF RESOURCES	**197,587,974**	**2,084,600**	**15,299,265**	**214,971,839**	**15,044,230**
NET POSITION					
Net investment in capital assets	296,810,872	56,012,765	9,662,107	362,485,744	1,346,221
Restricted for debt service	13,103,657	-	100,729	13,204,386	-
Restricted for special assessments	2,520	-	-	2,520	-
Restricted for other governments	54,186	-	-	54,186	-
Unrestricted	62,622,450	8,527,534	(5,505,388)	65,644,596	939,657
TOTAL NET POSITION	**$ 372,593,685**	**$ 64,540,299**	**$ 4,257,448**	441,391,432	**$ 2,285,878**

Amounts reported for business-type activities in the statement of net assets are different because: The net effect of activities allocated from internal service funds is presented as an internal balance on the statement of net position.	(4,450,205)
Net position of business-type activities	**$ 436,941,227**

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

	BUSINESS-TYPE ACTIVITIES				GOVERNMENTAL ACTIVITIES -
	WATER & SEWER UTILITY	TRANSIT	OTHER ENTERPRISE FUNDS	TOTAL	INTERNAL SERVICE FUNDS
OPERATING REVENUES:					
Admission taxes	$ -	$ -	$ 98,650	$ 98,650	$ -
Charges for services	67,793,034	1,679,532	6,518,971	75,991,537	28,641,286
Rental revenues	-	1,048,767	-	1,048,767	-
Total Operating Revenues	**67,793,034**	**2,728,299**	**6,617,621**	**77,138,954**	**28,641,286**
OPERATING EXPENSES:					
Personnel services	20,739,370	11,331,085	1,104,764	33,175,219	2,843,648
Supplies	3,929,793	1,662,344	715,669	6,307,806	4,613,977
Professional services	5,381,561	1,952,509	1,848,542	9,182,612	13,180,047
Depreciation and amortization	12,463,722	3,362,126	842,190	16,668,038	322,324
Taxes	2,288,671	10,131	-	2,298,802	-
Other operating expenses	11,298,285	3,647,643	746,974	15,692,902	6,257,499
Total Operating Expenses	**56,101,402**	**21,965,838**	**5,258,139**	**83,325,379**	**27,217,495**
Operating Income (Loss)	11,691,632	(19,237,539)	1,359,482	(6,186,425)	1,423,791
NON-OPERATING REVENUES (EXPENSES):					
Sales tax	-	16,615,186	-	16,615,186	-
Intergovernmental revenues	364,244	998,620	951,184	2,314,048	-
Interest and investment revenue	(2,465,025)	(241,425)	(101,189)	(2,807,639)	(548,711)
Rent	435,604	28,609	-	464,213	-
Other non-operating revenues	125,111	38,207	-	163,318	41,669
Gain (loss) on sale/retirement of assets	60,198	14,400	-	74,598	7,957
Sale of junk/salvage	-	450	-	450	-
Interest expense	(6,547,948)	-	(385,832)	(6,933,780)	-
Other non-operating expenses	-	(1,356,040)	-	(1,356,040)	-
Total Non-Operating Revenues (Expenses)	**(8,027,816)**	**16,098,007**	**464,163**	**8,534,354**	**(499,085)**
Income (Loss) Before Contributions and Transfers	3,663,816	(3,139,532)	1,823,645	2,347,929	924,706
Capital contributions	3,720,289	4,723,743	-	8,444,032	-
Transfers in	-	-	3,800	3,800	20,816
Transfers out	(3,692,400)	(593,272)	-	(4,285,672)	-
CHANGE IN NET POSITION	3,691,705	990,939	1,827,445	6,510,089	945,522
NET POSITION - BEGINNING	370,596,100	63,549,360	2,480,010	436,625,470	1,340,356
Change in accounting principle	(1,694,120)	-	(50,007)	(1,744,127)	-
NET POSITION - ENDING	**$ 372,593,685**	**$ 64,540,299**	**$ 4,257,448**	**$ 441,391,432**	**$ 2,285,878**

Change in accounting policy

in Net Position for business-type funds is explained as follows:

Increase in Net Position, per above	$ 6,510,089
The net revenue (expense) of certain activities of internal service funds associated with business-type activities.	542,970
Change in Net Position, per Statement of Activities	$ 7,053,059

The accompanying notes are an integral part of this statement.

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2013
(Page 1 of 2)

	BUSINESS-TYPE ACTIVITIES				GOVERNMENTAL ACTIVITIES -
	WATER & SEWER UTILITY	TRANSIT	OTHER ENTERPRISE FUNDS	TOTAL	INTERNAL SERVICE FUNDS
CASH FLOWS FROM OPERATING ACTIVITIES:					
Receipts from customers and users	$ 69,339,606	$ 2,769,135	$ 6,617,831	$ 78,726,572	$ 5,761,452
Receipts from interfund services provided	936,034	9,425	-	945,459	22,937,990
Payments to suppliers	(16,257,914)	(1,251,369)	(2,871,508)	(20,380,791)	(19,743,262)
Payments to employees	(20,511,816)	(11,312,484)	(1,077,927)	(32,902,227)	(2,830,714)
Payments for interfund services used	(6,483,745)	(5,979,848)	(172,740)	(12,636,333)	(352,287)
Claims paid	-	-	-	-	(5,454,166)
Other receipts (payments)	102,281	(1,281,473)	-	(1,179,192)	757,944
NET CASH PROVIDED BY OPERATING ACTIVITIES	**27,124,446**	**(17,046,614)**	**2,495,656**	**12,573,488**	**1,076,957**
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:					
Sales tax received	-	16,507,638	-	16,507,638	-
Receipts from non-capital grants	364,244	811,969	945,363	2,121,576	-
Interfund loans received	1,225,000	-	-	1,225,000	-
Interfund loans paid out	(965,000)	-	-	(965,000)	-
Principal paid on interfund loans	-	-	(170,000)	(170,000)	-
Interest paid on interfund loans	-	-	(159,616)	(159,616)	-
Transfers to other funds	(3,692,400)	(593,272)	-	(4,285,672)	-
Transfers from other funds	-	-	3,800	3,800	20,816
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	**(3,068,156)**	**16,726,335**	**619,547**	**14,277,726**	**20,816**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Proceeds from capital debt	1,071,215	-	-	1,071,215	-
Refunding of capital debt	(1,843,078)	-	-	(1,843,078)	-
Principal paid on capital debt	(11,005,307)	-	(1,000,000)	(12,005,307)	-
Interest paid on capital debt	(1,999,036)	-	(230,001)	(2,229,037)	-
Proceeds from interfund loans	-	-	(260,000)	(260,000)	-
Receipts from capital grants	-	4,612,443	-	4,612,443	-
Proceeds from sale of capital assets	72,187	14,850	-	87,037	7,957
Capital contributions	2,843,367	-	13,224	2,856,591	-
Acquisition and construction of capital assets	(15,252,188)	(5,859,332)	(1,492,279)	(22,603,799)	(323,617)
Payments to joint ventures	7,611	-	-	7,611	-
NET CASH PROVIDED BY CAPITAL FINANCING ACTIVITIES	**(26,105,229)**	**(1,232,039)**	**(2,969,056)**	**(30,306,324)**	**(315,660)**
CASH FLOWS FROM INVESTING ACTIVITIES:					
Proceeds from sale of investments	-	558,650	-	558,650	176,157
Purchase of investments	(2,761,977)	-	(188,747)	(2,950,724)	(1,643,456)
Investment income	1,698,138	130,799	86,301	1,915,238	324,381
NET CASH PROVIDED BY INVESTING ACTIVITIES	**(1,063,839)**	**689,449**	**(102,446)**	**(476,836)**	**(1,142,918)**
Net Increase (Decrease) in Cash and Cash Equivalents	(3,112,778)	(862,869)	43,701	(3,931,946)	(360,805)
Cash and Cash Equivalents, January 1	14,477,441	2,731,831	710,504	17,919,776	2,916,202
CASH AND CASH EQUIVALENTS, DECEMBER 31	**$ 11,364,663**	**$ 1,868,962**	**$ 754,205**	**$ 13,987,830**	**$ 2,555,397**
Current Cash and Cash Equivalents	$ 8,372,662	$ 1,868,962	$ 653,476	$ 10,895,100	$ 2,555,397
Restricted Cash and Cash Equivalents	2,992,001	-	100,729	3,092,730	-
CASH AND CASH EQUIVALENTS, DECEMBER 31	**$ 11,364,663**	**$ 1,868,962**	**$ 754,205**	**$ 13,987,830**	**$ 2,555,397**

The accompanying notes are an integral part of this statement.

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2013
(Page 2 of 2)

	BUSINESS-TYPE ACTIVITIES				GOVERNMENTAL ACTIVITIES -
	WATER & SEWER UTILITY	TRANSIT	OTHER ENTERPRISE FUNDS	TOTAL	INTERNAL SERVICE FUNDS
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:					
Operating income (loss)	$ 11,691,632	$ (19,237,539)	$ 1,359,482	$ (6,186,425)	$ 1,423,791
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:					
Depreciation and amortization	12,463,722	3,362,126	842,191	16,668,039	322,324
Other non-operating receipts	560,715	66,816	-	627,531	41,669
Other non-operating disbursements	-	(1,345,789)	-	(1,345,789)	-
Change in Assets and Liabilities:					
(Increase) decrease in inventories	(173,530)	-	(1,433)	(174,963)	(27,529)
(Increase) decrease in receivables	2,024,172	(58,293)	(9,522)	1,956,357	423,671
(Increase) decrease in prepaid expenses	1,343,084	(57,483)	38,753	1,324,354	393,228
Increase (decrease) in accounts and other payables	(872,527)	200,733	231,891	(439,903)	(1,506,454)
Increase (decrease) in compensated absences	87,178	(28,983)	24,562	82,757	6,257
Increase (decrease) in other current liabilities	-	51,798	9,732	61,530	-
TOTAL ADJUSTMENTS	15,432,814	2,190,925	1,136,174	18,759,913	(346,834)
NET CASH PROVIDED BY OPERATING ACTIVITIES	**$ 27,124,446**	**$ (17,046,614)**	**$ 2,495,656**	**$ 12,573,488**	**$ 1,076,957**
SCHEDULE OF NON-CASH CAPITAL AND RELATED FINANCING ACTIVITIES:					
Non-Cash Financing, Capital and Investing Activities:					
Capital assets contributed by private developers	$ 64,644	$ -	$ -	$ 64,644	$ -
Capital assets acquired by capital lease	60,556	-	-	60,556	-
Increase (decrease) in fair value of investments	(3,972,562)	(216,814)	(180,879)	(4,370,255)	(840,649)
Capital grants earned, not received	-	138,851	-	138,851	-
TOTAL NON-CASH ACTIVITIES	$ (3,847,362)	$ (77,963)	$ (180,879)	$ (4,106,204)	$ (840,649)

The accompanying notes are an integral part of this statement.

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
DECEMBER 31, 2013

	TRUST FUNDS	AGENCY FUNDS
ASSETS		
Cash and cash equivalents	$ 40,238	$ 175,759
Agency Bonds	42,624,945	-
Accounts receivable - net	1,720	29,783
Interest receivable	7,805	-
TOTAL ASSETS	**42,674,708**	**205,542**
LIABILITIES		
Accounts payable	9,865	14,020
Interfund Loans Payable	66,000	-
Other current liabilities	-	191,522
TOTAL LIABILITIES	**75,865**	**205,542**
NET POSITION		
Assets held in trust for pension benefits	12,880,703	**-**
Assets held in trust for post employment benefits	29,718,140	**-**
Total held in trust	**$ 42,598,843**	**$ 0**

The accompanying notes are an integral part of this statement.

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

		TRUST FUNDS
ADDITIONS:		
Contributions		
Employer	$	99,776
State		155,946
Total contributions		255,722
Investment income		
Interest		769,621
Net appreciation (depreciation) in fair value		(3,861,503)
Net investment income		(3,091,882)
TOTAL ADDITIONS		**(2,836,160)**
DEDUCTIONS:		
Benefits		2,979,836
Administrative expense		45,146
TOTAL DEDUCTIONS		**3,024,982**
CHANGE IN NET POSITION		
Pension benefits		(506,723)
Postemployment healthcare benefits		(5,354,419)
NET POSITION RESERVED FOR EMPLOYEES' PENSION BENEFITS		
Employees' pension benefits, January 1		13,387,425
NET POSITION RESERVED FOR POSTEMPLOYMENT HEALTHCARE BENEFITS		
Postemployment healthcare benefits, January 1		35,072,560
NET POSITION - ENDING	**$**	**42,598,843**

The accompanying notes are an integral part of this statement.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. REPORTING ENTITY

The City of Everett was incorporated on May 4, 1893. The City operates under a Mayor-Council form of government, and under its charter has all powers granted to like cities by the constitution and laws of the state. The City is a general-purpose government providing police, fire, emergency medical service, water distribution, sewage collection and treatment, street maintenance, planning and zoning, libraries, parks and recreation, and general administrative services - the full range of municipal services contemplated by statute or charter.

As required by the generally accepted accounting principles the City of Everett includes all governmental activities, organizations, and functions (referred to in this note as “organizations,” whether they are structured as funds, departments, agencies, boards, or commissions) for which the City of Everett is financially accountable.

Also included are other organizations for which the nature and significance of their relationship with the City of Everett are such that exclusion would cause the City’s financial statements to be misleading or incomplete. The City of Everett is financially accountable for other entities if it appoints a voting majority of the governing body and 1) it is able to impose its will on the organization or 2) there is a potential for the organization to provide specific financial benefits to or impose specific financial burdens on the City.

Each blended and discretely presented component unit has a December 31 year-end.

Blended Component Unit – Although legally separate entities, blended component units are, in substance, part of the government’s operations. Therefore, data from these units are combined with data of the primary government.

The **Industrial Development Corporation** (IDC) of the City of Everett, a public nonprofit corporation, is authorized to facilitate the issuance of tax-exempt nonrecourse revenue bonds to finance industrial development within the corporate boundaries of the City. The local government, through the public corporation, is simply lending its name to confer tax-exempt status on the bonds issued. Neither the local government, the public corporation, nor the state government pledges its credit to repayment of the bonds. The funds for repayment of the bonds come from private lenders and must be repaid by the company for which the industrial development facilities are financed and built. Currently, there are no outstanding bonds.

The entire IDC’s governing body is comprised of City council members and the mayor, who serves as ex officio. As a result, the City has the ability to affect the organization’s operation. The IDC’s account balances and transactions included in the City’s financial statements as a special revenue fund. The transactions, if any, are minimal; therefore, separate financial statements have not been issued.

In February 2009, the city formed a community development entity (CDE) called the **City of Everett CDE LLC.** The City of Everett CDE LLC is a separate legal entity whose purpose is to help alleviate poverty and incentivize investments into low income community census tracts. The Everett CDE LLC applied for New Market Tax Credits (NMTC) in April of 2009. In October 2009, the US Treasury Department awarded $25 million in NMTC to City of Everett CDE LLC.

The City of Everett CDE LLC is wholly owned and controlled by the City. The volunteer board members, who are appointed by the mayor and approved by City Council, serve solely in an advisory capacity.

Discretely Presented Component Unit – Each discretely presented component unit is reported in a separate column in the combined financial statements to emphasize it is legally separate from the government.

The **Everett Public Facilities District** (PFD), a municipal corporation of the State of Washington, was established by City ordinance in March 2001, to finance, design, construct, operate, and maintain a special events center. The Board of Directors consists of five members, all appointed by the Everett City Council. The City is contingently liable for the 2007 Variable Rate Project Revenue Bonds issued by the Public Facilities District (PFD). As of December 31, 2013, the outstanding 2007 Variable Rate Project Revenue Bonds balance was $27,415,000. The PFD also has outstanding Limited Sales Tax and Interlocal Revenue Bond debt of $22,650,000 at year end. Payments for the PFD debt are expected to be made from PFD tax revenues and net project revenues. In the event that these revenues are insufficient to make any required payments, the City may be liable for the required payments on the outstanding 2007 Variable Rate Project Revenue Bond debt. The district is presented as an enterprise fund. Complete financial statements may be obtained at the PFD administrative offices at 2000 Hewitt Avenue, Suite 200, Everett, Washington 98201.

B. IMPLEMENTATION OF NEW ACCOUNTING PRINCIPLES

Effective January 1, 2013, the City adopted the provisions of GASB Statement No. 65, Items Previously Reported as Assets and Liabilities. The objective of this statement is to improve financial reporting by clarifying the appropriate use of the financial statement elements deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting.

C. 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 nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support. 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 are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Additionally, the City's accounting system automatically allocates a portion of its indirect costs to individual functions. These indirect costs have been included as part of the program expenses reported for the various functional activities. 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. Taxes and other items not properly included among program revenues are reported as general revenues.

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

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

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

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

Several major revenue sources associated with the current period are considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. These major revenues include property taxes;

business and occupation taxes; real estate excise taxes; sales tax; natural gas, telephone, and electric taxes; licenses; and interest. Only the portion of special assessment receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

- The general fund is the City's operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The capital improvement reserve fund, which is a special revenue fund, accounts for the activity and reserves associated with community, recreational and public safety improvements. The major funding source for this fund includes Real Estate Excise Tax, general fund contributions, rental income, and interest earnings.

The City reports the following major proprietary funds:

- The water and sewer utility fund accounts for the distribution and filtration of water, the collection and treatment of wastewater, the collection and treatment of sewage, and for surface water management.
- The transit fund accounts for public transit transportation services, including an elderly persons with disabilities van service and a rideshare program. The transit fund also accounts for the operation of Everett Station.

Additionally, the City reports the following fund types:

- Internal service funds account for the City's self-insured medical and chiropractic health benefits, general liability, workers' compensation, and property insurance coverage, fleet management services, telecommunication services, and information technology services provided to other departments on a cost reimbursement basis.
- Pension trust funds account for the activities of the police and fire pension funds, which accumulate resources for pension benefit payments and post-employment health care benefits to qualified public safety employees.
- Agency funds are custodial in nature (assets equal liabilities) and do not measure the results of operations. The City uses an agency fund to account for the Downtown Business Improvement Area, the Snohomish County Police Staff and Auxiliary Service Center (SNOPAC), the Green Bus Coalition, and the Tulalip Water Delivery System.

As a general rule, the effect of interfund activity has been eliminated for the government-wide financial statements. Exceptions to this general rule are charges between the government's water and sewer functions and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned. The City has allocated certain indirect costs that are included in the program expense reported for individual functions and activities.

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Utilities Fund, Solid Waste Utility Fund, Transit Fund, Parking Garage Fund, Golf Fund, and the internal service funds are charges to customers for sales and services. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

E. ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION/FUND BALANCE

Cash and Cash Equivalents

It is the City's policy to invest all temporary cash surpluses. These investments are reported in the balance sheets as cash and cash equivalents. Cash and cash equivalents are defined as cash on hand, demand deposits, and all highly liquid investments, including restricted assets, with original maturities of three months or less. The interest on these investments is prorated to the applicable funds.

Investments – See Note 4.

Receivables

Taxes receivable consist of property taxes and related interest and penalties, electric taxes, telephone taxes, B&O taxes, natural gas use taxes, and sales taxes. Customer accounts receivable consist of amounts owed from private individuals or organizations for goods and services including amounts owed for which billings have not been prepared. Interest receivable consists of amounts earned on investments, notes, and contracts at the end of the year. Notes and contracts receivable consist of amounts loaned to private individuals or organizations primarily in conjunction with the Community Home Improvement Program or the Community Development Block Grant Program. Special assessments receivable, which are recorded when the special assessment is levied, consist of current and delinquent assessments and related interest and penalties.

Amounts Due to and from Other Funds, Interfund Loans, and Advances

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "interfund loans receivable/payable" or "advances to/from other funds." All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances." Separate schedules of interfund loans, advances and amounts due to and from other funds are presented in Note 14.

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

Amounts Due to and from Other Governmental Units

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

Inventories and Prepayments

Inventories of proprietary funds are valued using the weighted average cost method for Utilities and Golf, and the moving average cost method for the Equipment Rental Fund. Inventories of the governmental fund are recorded as expenditures when purchased.

Certain payments made in the current period reflect costs applicable to future accounting periods. These amounts are reported as "Prepayments" in both the government-wide and fund financial statements.

Restricted Assets and Liabilities

Constraints imposed by debt covenants and laws and regulations of other governments require that the City maintain cash accounts, investments and receivables for certain purposes. These accounts contain resources for construction, escrow requirements and debt service, including special assessments receivable. Related liabilities are included in "Special Assessments – Non-Current" in the statement of net position. Specific debt service requirements are disclosed in Note 10.

Restricted assets of governmental activities include the following:		
Special assessments receivable	$	123,454
CHIP Loans receivable		13,169,699
	$	13,293,153

Restricted assets of business-type activities include the following:		
Revenue bond debt service accounts	$	13,204,386
Escrow required by Snohomish County Health District		54,186
Special assessments receivable		2,520
Total	$	13,261,092

Capital Assets and Depreciation - See Note 6.

Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused sick leave and vacation benefits.

Employees may accumulate a maximum of between 960 and 1,176 hours of sick leave depending upon the collective bargaining unit agreement or City ordinance that applies to them. Upon separation from City employment, eligible employees will be compensated between 0 and 520 hours of their sick leave balance, depending upon the applicable collective bargaining agreement or City ordinance.

A long-term liability for a portion of accumulated sick leave has been recorded in the government-wide and proprietary fund financial statements using the vesting method. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations or retirements.

Eligible employees may accumulate a maximum of between 384 and 448 hours of vacation leave in accordance with the applicable collective bargaining agreement or City ordinance but may not accumulate more than two full years of earned vacation. At the time of retirement or separation from the City, eligible employees will be compensated for a maximum of 240 to 448 hours of their accrued vacation balance, again depending on the applicable collective bargaining agreement or City ordinance.

All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (as either an expense or expenditure) until that period. The City only has one item that qualifies for reporting in this category: deferred gains on refunding reported in the statement of net position. A deferred gain on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This represents an acquisition of net position that applies to a future period(s) and will not be recognized as in inflow of resources (revenue) until that period. The City has three items that qualify for reporting in this category: (1) Unavailable property taxes recorded as receivables, (2) unavailable special assessments recorded as non-current receivable, (3) unavailable interest revenue relating to loans.

Short-term Debt

The City did not issue short-term debt during 2013.

Long-term Debt

In the fund financial statements of proprietary fund types and in the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Detailed information on long-term debt outstanding at year-end is presented in Note 10 and Note 12.

Other accrued liabilities

These accounts include accrued employee benefits, customer deposits, and pollution remediation liabilities.

Fund Balances

The components for reporting the City's governmental fund balances are nonspendable, restricted, committed, assigned and unassigned. Nonspendable fund balance cannot be spent because they are either not in spendable form such as inventory or prepaids or they are legally or contractually required to remain intact. Restricted fund balance includes amounts the use of which is subject to constraints imposed by external parities, including creditors, grantors, and laws and regulations of other governments. Committed fund balance includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision making authority. City Council is the City's highest level of decision making. Fund balance commitments are established, modified, or rescinded by City Council action through passage of an ordinance. Assigned fund balance includes amounts that have an intended use established by the City Council or Administration. However, little or no formal action is required to modify intended use. The unassigned fund balance represents the residual net resources.

The City considers restricted amounts to have been spent when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance are available. The City does not have a formal policy for its use of unrestricted fund balance amounts; therefore, it considers committed amounts used first, followed by assigned, amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

On February 17, 1993, City Council passed ordinance 1928-93 which established a Contingency Reserve Fund. Per the ordinance, funds in the Contingency Reserve Fund can only be expended upon consensus agreement between Administration and City Council. Such expenditures can only be used when extraordinary needs arise that require immediate budget attention. Examples include natural and man-made disasters, civic unrest, and severe economic downturns. The balance in the Contingency Reserve Fund at December 31, 2013 was $4.0 million and is included in the unassigned fund balance of the General Fund. The City maintains a formal policy that fund balance in the General Fund be at least 20 percent of operating revenues.

Fund balances by classification for the year ended December 31, 2013 were as follows:

Fund Balances	General Fund	Capital Improvement Reserved Fund	Other Governmental Funds	Total Governmental Funds
Nonspendable:				
Long Term Loans	$ 1,140,000	$ -	$ 434,160	$ 1,574,160
Advances to Other Funds	7,319,168	-	-	7,319,168
Prepayments	917,652	-	-	917,652
Restricted for:				
Tourism Advertising	-	-	418,676	418,676
Parks & Recreation Maintenance	-	-	1,705,472	1,705,472
Animal Shelter Operation	-	-	330,508	330,508
Parks Capital Constuctions	-	-	541,976	541,976
Streets Capital Constructions	-	-	1,077,998	1,077,998
Capital Projects Debt Service	-	-	236,242	236,242
Policing	-	-	8,254,588	8,254,588
Traffic Improvement Projects	-	-	2,888,594	2,888,594
CHIP Loans	-	-	14,013,220	14,013,220
Committed to:				
1% for the City Streets Art	158,569	-	-	158,569
Assigned to :				
Capital Projects	-	5,677,055	-	5,677,055
City Debt Services	-	10,826,645	32,199	10,858,844
Riverfront Capital Projects	-	-	504,557	504,557
City Street Improvements	-	-	4,429,530	4,429,530
Everett TV Equipment Replacements	-	-	557,830	557,830
Animal Shelter Operation	-	-	85,875	85,875
Library Books			49,147	49,147
Library Operations	-	-	85,392	85,392
EMS	-	-	366,308	366,308
Policing	-	-	23,234	23,234
City Roads Safety Improvements	-	-	372,004	372,004
Facility Construction Projects	-	-	392,578	392,578
Parks Capital Construction	-	-	78,564	78,564
Unassigned:	42,654,161	-	(99,335)	42,554,826
Total Fund Balances	$ 52,189,550	$ 16,503,700	$ 36,779,317	$ 105,472,567

At December 31, 2013 the non major governmental funds included a deficit unassigned fund balance of $99 thousand.
The deficit balance occurred in the Community Development Block Grant Fund Fund. expenditures exceeded the resources; therefore, the negative residual amount is classified as a deficit unassigned fund balance.

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

- **Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net position.**

The governmental funds balance sheet includes a reconciliation between Total Fund Balances – Governmental Funds and Total Net Position-Governmental Activities as reported in the government-wide statement of net position. Certain items in the reconciliation are a combination of items reported at net. These items are detailed as follows:

Governmental balance sheets reconciliation

Capital assets not reported in total governmental funds:	
Cost of capital assets	$ 452,702,594
Fair value of annexed land and infrastructure	1,827,540
Accumulated depreciation	(129,399,772)
Net adjustment to increase total fund balances of governmental funds to arrive at net position of governmental activities.	$ 325,130,362
Long-term debt not reported in total governmental funds:	
Bonds payable	$ (23,827,276)
Compensated absences accrued	(10,312,567)
Unamortized balance of bond premiums	(914,955)
Accrued interest payable	(38,113)
Capital leases	(1,058)
Net adjustment to reduce total fund balances of government funds to arrive at net position of governmental activities	$ (35,093,969)
Internal service funds reported separately with business-type funds:	
Internal service funds - total fund equity	$ 2,285,878
Amount allocated to internal balances - business-type activities	4,450,205
Net adjustment to increase total fund balances of governmental funds to arrive at net position of governmental activities.	$ 6,736,083

- **Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities.**

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between Net changes in fund balances-Total Governmental Funds and Change in net position-Governmental Activities as reported in the government-wide statement of activities. Certain items in the reconciliation are a combination of items reported at net. These items are detailed as follows:

Governmental revenues/expenditures reconciliation

The net effect of various miscellaneous transactions involving capital assets:	
Book value of disposed assets:	
Cost of government-type capital assets disposed	$ (7,412,955)
Accumulated depreciation of disposed assets	7,362,307
Net adjustment to increase (reduce) net change in fund balances-total governmental funds to arrive at change in net position of governmental activities	$ (50,648)
The amount by which depreciation exceeds capital outlays in the current period:	
Expenditures that are capitalized	$ 16,233,621
Current depreciation expense	(7,880,767)
Net adjustment to increase (reduce) net change in fund balance-total governmental funds to arrive at change in net position of governmental activities	$ 8,352,854
The net effect of the differences in the treatment of long-term debt and related items:	
Proceeds of long-term debt	$ -
Principal payments on long-term debt	874,316
Decrease (increase) in interest payable	24,032
Decrease (increase) in compensated absences liability	(7,674)
Amortization of bond premium	70,381
Net adjustment to increase (reduce) net change in fund balances-total governmental funds to arrive at change in net position of governmental activities	$ 961,055
The net revenue (expense) of certain activities of internal service funds:	
Interest revenue allocated from internal service funds to governmental activities	$ (226,519)
Net expense allocated from internal service funds to governmental activities	608,256
Interfund transfers out	20,817
Net adjustment to reduce net change in fund balances-total governmental funds to arrive at change in net position of governmental activities	$ 402,554

NOTE 3 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budget

Scope of Budget
Annual appropriated budgets are adopted for the general fund, special revenue funds, and debt service funds, on a basis consistent with generally accepted accounting principles. Budget-to-actual comparison schedules are presented for these funds.

Annual appropriated budgets are also adopted for the proprietary funds; however, they are "management budgets" and are not required to be presented in these statements. Budgets for capital project funds are adopted at the individual-project level and for fiscal periods that correspond to the projects. Because these funds are not budgeted on an annual basis, budgetary comparisons are not presented.

Legal budgetary control is established at the fund level. Subsidiary revenue and expenditure ledgers are used to compare the budgeted amounts with actual revenues and expenditures. As a management control device, the subsidiary ledgers are used to monitor expenditures for individual functions and activities by object class.
Annual appropriations for all funds lapse at year-end.

Amending the Budget
The Mayor is authorized to transfer appropriations between programs within any fund; however, any revisions that alter the total expenditures of a fund must be approved by the City Council. When City Council determines that it is in the best interest of the City to increase or decrease the appropriation for a particular fund, it may do so by ordinance approved by one more than the majority after holding public hearings. The budget was amended by ordinance three times in 2013.

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

Compliance

As of December 31, 2013, the following funds reported deficits in fund balance or net position:

Fund 440 – Golf Fund had a deficit net position of $3,193,876. To eliminate the deficit, the City continues elements of its business plan to increase revenue and decrease expenses.

Fund 503 – Self Insurance Fund had a deficit net position of $851,866. This deficit will be eliminated by increase in interfund assessments.

There were no other material violations of finance-related legal or contractual provisions in any of the funds of the City.

NOTE 4 – DEPOSITS AND INVESTMENTS

Deposits

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

Investments

As required by state law, all investments of the City's funds are obligations of the U.S. Government, U.S. agency issues, obligations of the State of Washington, the State of Washington Local Government Investment Pool, Bankers' Acceptances or certificates of deposit with Washington State Banks that are approved by the Washington State Protection Commission (PDPC) to accept public funds.

The Washington Local Government Investment Pool (LGIP) is an unrated investment pool that operates in a manner consistent with the SEC's Rule 2a-7 of the Investment Company Act of 1940. The fair value of the portfolio is calculated by the master custodian or by an independent pricing service under contract with the State Treasurer's Office. The fair value of the City's position in the State of Washington Local Government Investment Pool is the same as the value of the pool shares.

All Fire and Police Pension Fund investments are purchased through and held by RBC Wealth Management, a division of RBC Capital Markets, LLC, member NYSE/FINRA/SIPC (New York Stock Exchange/Financial Industry Regulatory Authority/Securities Investor Protection Corporation). Fire and Police Pension assets are protected by the SIPC up to $500,000 per account (of which $250,000 may be cash). RBC Wealth Management has an additional policy which provides up to an additional $99.5 million per SIPC qualified account (of which $900,000 may be cash) subject to a total maximum aggregate of $400 million. Neither SIPC protection, nor protection in excess of that provided by SIPC, covers a decline in the value of customer's assets due to market loss.

As of December 31, 2013, the City had the following investments and maturities:

		MATURITIES			
INVESTMENT TYPE	**FAIR VALUE**	**LESS THAN A YEAR**	**1 - 3 YEARS**	**4 - 7 YEARS**	**7 TO 10 YEARS**
Agencies:					
FAMCA	2,822,070				2,822,070
FFCB	33,591,457			14,685,778	18,905,679
FHLB	43,410,927		2,077,680	15,398,017	25,935,230
FHLMC	38,117,569			23,012,669	15,104,900
FNMA	25,568,118			7,247,849	18,320,269
Certificate of Deposit:					
Umpqua Bank	3,000,000	3,000,000			
Total Investments	**146,510,140**	**3,000,000**	**2,077,680**	**60,344,313**	**81,088,148**
Deposits:					
State Pool	19,310,066	19,310,066			
Deposit Account - Opus Bank	5,399,295	5,399,295			
Total Deposits	**24,709,361**	**24,709,361**			
TOTAL INVESTMENTS & DEPOSITS	**171,219,501**	**27,709,361**	**2,077,680**	**60,344,313**	**81,088,148**

Interest Rate Risk
As a means of limiting its exposure to interest rate risk, the City's policy requires that it diversify its investments by security type and institutions, and limits holdings in any one type of investment with any one issuer. The City coordinates its investment maturities to closely match cash flow needs and restricts the maximum investment term to less than ten years from the purchase date.

The LGIP is an un-rated 2a-7 like pool, as defined by GASB Statement No. 31. The weighted average maturity of the LGIP portfolio does not exceed 90 days.

Credit Risk
Safety of principal is the foremost objective of the City's investment program. City investments are undertaken in a conservative manner that seeks to ensure the preservation of the portfolio's capital. The City holds investments in US Treasuries and Government Agencies, all of which hold AAA ratings from Standard & Poor's and Aaa from Moody's Investor Services.

Concentration of Credit Risk
The City's Investment Policy limits investment in any one US Government Agency issuer to no more than 70 percent of the portfolio value, and other government obligations, repurchase agreements, bankers' acceptances, certificates of deposit, and savings or time deposits in any one issuer to no more than 10 percent. There is no restriction on the City's percentage of investment in Treasuries or the State Investment Pool.

Custodial Credit Risk for Cash Deposits
In accordance with state law and the city's Investment Policy, all cash deposits are held in banks that are authorized by the PDPC to accept public deposits. In order to receive and maintain PDPC approval, banks must collateralize all uninsured public deposits at 100 percent.

Interest Allocation

Interest earnings are distributed monthly among funds based on average cash balances. However, in certain cases where a fund's resources derive from another fund, investment income is reported in the fund that is providing the resources rather than the fund that reports the underlying investment. These special distributions include the following:

Fund Reporting Investment	Fund Receiving Investment Income
Fund 115 - Special Projects	Fund 002 - General Fund
Fund 160 - Rainy Day Fund	Fund 002 - General Fund
Fund 162 - Capital Improvement Fund - CIP 4	Fund 002 - General Fund
Fund 342 – City Facilities Construction Fund	Fund 002 - General Fund
Fund 354 – Parks CIP 3 Construction Fund	Fund 154 – Real Estate Excise Tax Fund

NOTE 5 - PROPERTY TAXES

The Snohomish County Treasurer acts as an agent to collect property taxes levied in the county for all taxing authorities. Properties listed on the County tax rolls as of May 31 are included in the annual tax levy the following January 1. New construction through August 31 is included in the annual tax levy the following January 1.

Property taxes levied by the County Assessor are based on 100% of market value. The taxes are collected by the County Treasurer and become a lien on the first day of the levy year and may be paid in two equal installments if the total amount exceeds $50. The first half of real property taxes is due April 30 and the balance is due October 31. Delinquent taxes bear interest at the rate of 12% and are subject to additional penalties of 3% to 11% if not paid as scheduled.

Property tax revenues are recognized in the year levied. At year-end, property tax revenues are recognized for collections to be distributed by the County Treasurer within sixty days and an adjustment to taxes receivable and deferred revenue is made to account for delinquent taxes. No allowance for uncollectible taxes is established because delinquent taxes are considered fully collectible.

The tax rate for general City operations is limited by State law (RCW 84.52.043) to $3.375 per $1,000 of assessed value. An additional amount, up to $0.225, may be levied as a contribution to the Firemen's Pension Fund if a report by a qualified actuary indicates that additional funds are required. The City maintains a Firemen's Pension Fund; thus the limit is $3.600. This amount may be reduced for any of the following reasons:

(1) **RCW 84.52.050** limits the total regular property taxes to one percent of assessed valuation or $10 per $1,000 of value. If the taxes of all districts exceed this amount, each is proportionately reduced until the total is at or below the one percent limit.

(2) **Initiative 747** passed by the voters in November of 2001 limits the amount by which a taxing jurisdiction can increase the amount of its regular property tax levy to the lesser of the Implicit Price Deflator (IPD) or one percent, plus adjustments for new construction and annexations. Tax increases higher than one percent must be approved by the voters at an election held according to RCW 84.55.050. A simple majority vote is required.

For 2013, the City levied the following property taxes on an assessed value of $10,626,808,542. The special levies identified in the table were approved by the voters and are not subject to the limitations listed above.

PURPOSE OF LEVY	LEVY RATE PER $1,000	TOTAL LEVY AMOUNT
General government	$3.133	$ 33,298,620
Emergency medical services	0.500	5,313,404
TOTAL CITY LEVY	$3.633	**$ 38,612,024**

Capital assets consist of land, buildings, improvements, machinery and equipment, infrastructure (e.g., roads, bridges, traffic controls, library collections, and similar items), and intangibles (e.g., computer software and other intellectual property) with an estimated useful life of more than one year. Land is capitalized at cost with no minimum threshold. Buildings, improvements, machinery and equipment and intangibles are capitalized when the cost of an individual item exceeds $5,000. Infrastructure assets are capitalized when the cost equals or exceeds $200,000. Assets are valued at actual historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets and infrastructure are valued at their estimated fair value on the date received. Capital assets financed by capital leases are recorded at the present value of lease payments. Renewals and betterments are capitalized and depreciated over the remaining useful lives of the related properties. The cost of normal maintenance and repair of both governmental and business-type assets is charged to operations as incurred.

Capital assets are reported in the applicable governmental or business-type columns in the government-wide financial statements. Capital assets of the internal service funds are reported with governmental assets in the statement of net position.

A summary of changes in governmental capital assets appears as follows:

GOVERNMENTAL ACTIVITIES	BEGINNING BALANCE 01/01/13	ADDITIONS	TRANSFERS	DELETIONS	ENDING BALANCE 12/31/13
Capital assets, not being depreciated or amortized:					
Land	$ 59,866,571	$ 681,900	$ 7,394	$ -	$ 60,555,865
Construction in progress *	26,424,350	8,387,730	(30,225,450)	(840,705)	3,745,925
Total capital assets, not being depreciated or amortized	86,290,921	9,069,630	(30,218,056)	(840,705)	64,301,790
Capital assets, being depreciated or amortized:					
Buildings	87,640,782	515,243	11,340,587	(80,333)	99,416,279
Improvements other than buildings	32,384,134	276,013	469,673	(154,190)	32,975,630
Infrastructure	214,809,137	5,342,600	18,407,796	(6,786,942)	231,772,591
Machinery and equipment	26,152,986	3,015,468	16,107	(528,364)	28,656,197
Intangibles	813,653	72,021	-	-	885,674
Total capital assets being depreciated or amortized	361,800,692	9,221,345	30,234,163	(7,549,829)	393,706,371
Less accumulated depreciation or amortization for:					
Buildings	(31,089,395)	(2,005,249)	-	80,333	(33,014,311)
Improvements other than buildings	(16,959,794)	(1,316,687)	-	107,459	(18,169,022)
Infrastructure	(64,579,852)	(3,083,148)	-	6,786,942	(60,876,058)
Machinery and equipment	(17,740,098)	(1,708,471)	(16,107)	524,447	(18,940,229)
Intangibles	(442,422)	(89,536)	-	-	(531,958)
Total accumulated depreciation and amortization	(130,811,561)	(8,203,091)	(16,107)	7,499,181	(131,531,578)
Total capital assets being depreciated or amortized, net	230,989,131	1,018,254	30,218,056	(50,648)	262,174,793
Governmental activities capital assets, net	$ 317,280,052	$ 10,087,884	$ -	$ (891,353)	$ 326,476,583

* The deletion of construction in progress costs of $840,705 in governmental activities represents project costs that did not result in a capital asset and that were expensed in the current year.

A summary of changes in business-type capital assets appears as follows:

BUSINESS-TYPE ACTIVITIES		BEGINNING BALANCE 01/01/13	ADDITIONS	TRANSFERS	DELETIONS	ENDING BALANCE 12/31/13
Capital assets, not being depreciated:						
Land	$	33,703,712	$ 203,376	$ -	$ -	$ 33,907,088
Construction in progress *		53,946,825	15,581,933	(43,746,442)	(1,482,921)	24,299,395
Total capital assets, not being depreciated		87,650,537	15,785,309	(43,746,442)	(1,482,921)	58,206,483
Capital assets, being depreciated						
Buildings		182,874,145	-	6,057,417	-	188,931,562
Improvements other than buildings		463,717,051	209,819	37,639,916	(69,993)	501,496,793
Infrastructure		1,917,502	-	-	-	1,917,502
Machinery and equipment		34,498,734	6,517,212	33,002	(2,597,198)	38,451,750
Intangibles		16,108,353	-	-	-	16,108,353
Total capital assets being depreciated		699,115,785	6,727,031	43,730,335	(2,667,191)	746,905,960
Less accumulated depreciation for:						
Buildings		(59,951,778)	(3,863,787)	-	-	(63,815,565)
Improvements other than buildings		(142,280,292)	(10,048,183)	-	-	(152,328,475)
Infrastructure		(95,875)	(95,875)	-	-	(191,750)
Machinery and equipment		(23,533,405)	(2,397,961)	16,107	2,585,209	(23,330,050)
Intangibles		(5,440,621)	(262,233)	-	-	(5,702,854)
Total accumulated depreciation		(231,301,971)	(16,668,039)	16,107	2,585,209	(245,368,694)
Total assets being depreciated, net		467,813,814	(9,941,008)	43,746,442	(81,982)	501,537,266
Business-type activities capital assets, net	$	555,464,351	$ 5,844,301	$ -	$ (1,564,903)	$ 559,743,749

***** The deletion of construction in progress costs of $1,482,921 in business-type activities represents project costs that did not result in a capital asset and that were expensed in the current year.

Depreciation

Annual depreciation is recorded as an expense of the related activity. Provision for depreciation is computed using the straight-line method over estimated service life as follows. Certain facts or circumstances of specific assets may require amortization over shorter or longer periods.

	Estimated Service Life
Buildings	25-50 Years
Improvements Other Than Buildings	5-50 Years
Infrastructure	10-50 Years
Machinery and Equipment	2-20 Years
Intangibles	2-20 Years

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

GOVERNMENTAL ACTIVITIES		
General government services	$	458,424
Police		731,595
Fire		744,954
Engineering & construction services		260,869
Transportation		2,695,706
Community services		119,623
Library		818,214
Culture and recreation		2,184,445
Internal service allocated to business-type activities		189,261
Total depreciation - governmental activities	$	8,203,091
BUSINESS-TYPE ACTIVITIES		
Water	$	6,206,176
Sewer		6,349,408
Solid waste		274,808
Parking		42,916
Transit		3,459,525
Golf		524,467
Internal service allocated to business-type activities		(189,261)
Total depreciation - business-type activities	$	16,668,039
Total depreciation - all activities	$	24,871,130

NOTE 7 - 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 27, *Accounting for Pensions by State and Local Government Employers* and 50*, Pension Disclosures, an Amendment of GASB Statements 25 and 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. 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	82,242
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	30,515
Active Plan Members Vested	106,317
Active Plan Members Nonvested	44,273
Total	**263,347**

<u>Funding Policy</u>
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%****	4.92%****	*****

* 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 Gov't Units*	9.21%	9.21%	9.21%**
Employee-State Agency	9.76%	9.80%	7.50%***
Employee-Local Gov't Units	12.26%	12.30%	7.50%***

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

** Plan 3 defined benefit portion only.

***Minimum rate.

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

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2013	$196,930	$3,428,241	$658,656
2012	$182,080	$3,000,300	$578,570
2011	$167,552	$2,578,360	$480,993

Members participating in JBM:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2013	$0	$9,242	$0
2012	$0	$8,119	$0
2011	$0	$7,007	$0

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:

Term 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 Nonvested	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 City and the employees made the required contributions. The City's required contributions for the years ended December 31 were as follows:

	LEOFF Plan 1	**LEOFF Plan 2**
2013	$613	$1,824,853
2012	$975	$1,806,270
2011	$1,416	$1,771,396

Public Safety Employees' Retirement System (PSERS) Plan 2

Plan Description

PSERS was created by the 2004 Legislature and became effective July 1, 2006. PSERS retirement benefit provisions have been established by Chapter 41.37 RCW and may be amended only by the State Legislature.

PSERS is a cost-sharing multiple-employer retirement system comprised of a single defined benefit plan, PSERS Plan 2.

PSERS membership includes:

- PERS 2 or 3 employees hired by a covered employer before July 1, 2006, who met at least one of the PSERS eligibility criteria and elected membership during the period of July 1, 2006 to September 30, 2006; and
- Employees, hired on or after July 1, 2006 by a covered employer, that meet at least one of the PSERS eligibility criteria.

Covered employers include:

- State of Washington agencies: Department of Corrections, Department of Natural Resources, Gambling Commission, Liquor Control Board, Parks and Recreation Commission, and Washington State Patrol;
- Washington State counties;
- Washington State cities except for Seattle, Spokane and Tacoma; and
- Correctional entities formed by PSERS employers under the Interlocal Cooperation Act.

To be eligible for PSERS, an employee must work on a full-time basis and:

- Have completed a certified criminal justice training course with authority to arrest, conduct criminal investigations, enforce the criminal laws of Washington and carry a firearm as part of the job; or
- Have primary responsibility to ensure the custody and security of incarcerated or probationary individuals; or
- Function as a limited authority Washington peace officer, as defined in RCW 10.93.020; or
- Have primary responsibility to supervise eligible members who meet the above criteria.

PSERS retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the plan 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 PSERS Plan 2 can elect to withdraw total employee contributions and interest thereon, in lieu of any retirement benefit, upon separation from PSERS-covered employment.

PSERS Plan 2 members are vested after completing five years of eligible service.

PSERS members may retire with a monthly benefit of 2 percent of the average final compensation (AFC) at the age of 65 with five years of service, or at the age of 60 with at least 10 years of PSERS service credit, or at age 53 with 20 years of service. The AFC is the monthly average of the member's 60 consecutive highest-paid service credit 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.

PSERS members who retire prior to the age of 60 receive reduced benefits. If retirement is at age 53 or older with at least 20 years of service, a 3 percent per year reduction for each year between the age at retirement and age 60 applies.

PSERS Plan 2 provides disability benefits. There is no minimum amount of service credit required for eligibility. The monthly benefit is 2 percent of the AFC for each year of service. The AFC is based on the member's 60 consecutive highest creditable months of service. Benefits are actuarially reduced for each year that the member's age is less than 60 (with ten or more service credit years in PSERS), or less than 65 (with fewer than ten service credit years). 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.

PSERS 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 PSERS 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.

There are 75 participating employers in PSERS. Membership in PSERS consisted of the following as of the latest actuarial valuation date for the plan of June 30, 2012:

Retirees and Beneficiaries Receiving Benefits	27
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	60
Active Plan Members Vested	2,083
Active Plan Members Nonvested	2,167
Total	**4,337**

Funding Policy

Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates. The employer and employee contribution rates for Plan 2 are developed by the Office of the State Actuary to fully fund Plan 2.

The methods used to determine the contribution requirements are established under state statute in accordance with Chapters 41.37 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:

	PSERS Plan 2
Employer*	10.54%
Employee	6.36%

* The employer rate includes an employer administrative expense fee of 0.18%.

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

	PSERS Plan 2
2013	$57,321
2012	$53,155
2011	$51,894

FIRE PENSION FUND / POLICE PENSION FUND

Plan Description

The City is also the administrator of the Fire and Police pension systems shown as trust funds in the City's financial reports. Separate financial statements are not issued. Both systems are closed single-employer defined benefit pension plans established in conformance with RCWs 41.16, 41.18 and 41.20. These plans provide retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Membership is limited to firefighters and police officers employed prior to March 1, 1970 when the LEOFF retirement system was established. The City's obligation under the plans consists of paying all benefits, including payment to beneficiaries, for members who retired prior to March 1, 1970 and excess benefits over LEOFF for covered members who retired or will retire after March 1, 1970.

Membership of the Plans consisted of the following as of December 31, 2013:

- Retirees and beneficiaries of deceased retirees retiring prior to March 1, 1970 currently receiving full pension benefits from the Fire and Police Pension Fund number 3 and 3, respectively.

- Retirees and beneficiaries of deceased retirees retiring on or after March 1, 1970 currently receiving benefits in excess of what LEOFF provides from the Fire and Police Pension Funds number 60 and 41, respectively.

Fire Pension members are eligible for retirement after serving 25 years and reaching the age of 50. Members retiring with 25 years of service are paid 50 percent of the basic salary attached to the rank held at the date of retirement. Members retiring with more than 25 years of service will receive an additional 2% of their base for each full year of additional service up to a maximum of five additional years.

Police Pension members are eligible for retirement after serving for 25 years. Members retiring with 25 years of service are paid 50 percent of the basic salary attached to the position held for the year preceding the date of retirement, up to the position of captain. Members retiring with more than 25 years of service will receive an additional 2% of their base for each full year of additional service up to a maximum of five additional years.

There were no changes in benefit provisions in the current year.

The Fire Pension Fund is administered by a fire pension board comprised of the mayor or a designated representative who shall be an elected official of the City, who shall be the chairperson of the board, the City council finance committee chairperson, the City clerk, and two regularly employed or retired fire fighters elected by secret ballot of the employed and retired fire fighters.

The Police Pension Fund is administered by a police pension board comprised of the mayor or his designated representative who shall be an elected official of the City, the City clerk, the City treasurer, president of the City council, and three active or retired members of the police department elected by active and retired members of the police department.

Summary of Significant Accounting Policies

The Fire Pension Fund and the Police Pension Fund financial statements are prepared using the accrual basis of accounting. Employer contributions to each plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

Investments are reported at fair value, as provided by the custodian. Details on the investments of the Fire Pension Fund and Police Pension Fund are included in Note 4.

Funding Policy

There have been no employee contributions to the fire pension plan since March 1, 1970. The primary sources of funding for this plan are property taxes levied by the City and interest earnings. In addition, State Law earmarks 25 percent of the tax on fire insurance premiums collected by the State for distribution to cities for fire pensions. In 2013, the City received $155,946 in fire insurance premium tax.

There have been no employee contributions to the police pension plan since March 1, 1970. The primary sources of funding for this plan are property taxes levied by the City and interest earnings.

Administrative costs for both plans are financed through interest earnings.

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

ANNUAL PENSION COST AND NET PENSION OBLIGATION

	FIRE PENSION FUND	POLICE PENSION FUND
Annual Required Contribution (ARC)	$ (178,998)	$ 177,059
Actuarial Adjustment to ARC	139,328	32,832
Interest on Net Pension Obligation (Asset)	(125,395)	(29,549)
Annual Pension Cost (APC)	(165,065)	180,342
Contributions Made	155,946	-
Increase / (Decrease) in Pension Obligation	(321,011)	180,342
Net Pension Obligation (Asset) at beginning of year	(2,507,910)	(590,977)
Net Pension Obligation (Asset) at end of year	$ (2,828,921)	$ (410,635)

The negative net pension obligation is a result of the City overpaying its annual required pension cost; the resulting net pension asset has been recorded on the City's government-wide Statement of Net position.

The following schedules present three-year trend information for the Fire and Police Pension Funds. The trend information is intended to provide an indication of the progress being made in accumulating sufficient assets to pay benefits when due.

THREE-YEAR TREND INFORMATION FOR FIRE AND POLICE PENSION FUNDS

	FIRE PENSION FUND		
Year Ending	Cost (APC)	Percent of APC Contributed by City	Net Pension Obligation
December 31, 2013	$ (165,065)	*	$ (2,828,921)
December 31, 2012	(125,930)	*	(2,507,910)
December 31, 2011	(125,850)	*	(2,234,502)

	POLICE PENSION FUND		
Year Ending	Cost (APC)	Percent of APC Contributed by City	Net Pension Obligation
December 31, 2013	$ 180,342	0.0%	$ (410,635)
December 31, 2012	133,447	0.0%	(590,977)
December 31, 2011	125,278	0.0%	(724,425)

* No percentage contributed is presented for 2011, 2012 and 2013, because the Annual Required Contribution (ARC) was negative.

Funded Status and Funding Progress

The City uses the Entry Age Cost method to determine the annual pension cost and net pension obligation (asset).

The funded status of each plan as of the most recent actuarial valuation date is as follows:

As of December 31, 2012 the Fire pension plan was 150% funded. The actuarial accrued liability for benefits was $6.9 million, the actuarial value of assets was $10.4 million, resulting in an unfunded actuarial accrued liability (UAAL) of ($3.5 million). The covered payroll (annual payroll of active employees covered by the plan) was $622,642, and the ratio of the UAAL to the covered payroll was (561.16)%.

As of December 31, 2012 the Police pension plan was 49% funded. The actuarial accrued liability for benefits was $6.1 million, the actuarial value of assets was $3.0 million, resulting in an unfunded actuarial accrued liability (UAAL) of $3.1 million. The covered payroll (annual payroll of active employees covered by the plan) was $362,732, and the ratio of the UAAL to the covered payroll was 857.38%.

Actuarial Methods and Assumptions

An actuarial study is performed biennially for the Fire and Police Pension funds. The most recent actuarial study of the Fire and Police Pension Fund systems was computed by Northwest Plan Services to determine the funded status as of December 31, 2012. The actuarial cost method used in the valuation was changed from the Aggregate Cost Method to Entry Age Cost method. This change was made to comply with most recent GASB guidance. Because the few remaining active employees covered under the Firemen's Fund are retired eligible, this cost method change has absolutely no effect on the costs, amounts or projections.

The actuarial assumptions included (a) 5.0% annual investment return, (b) 3.0% annual salary increase, (c) 3.0% annual increase in consumer price index, (d) 5.0% annual increase in city contribution amount over amortization period, and (e) life expectancy based on RP-2000 mortality tables projected to 2015 with Scale AA. In addition to the assumptions listed above, the Fire Pension includes 4% annual increase in fire insurance premiums and a one-time 3% retroactive increase in the pension amount.

Separate financial statements are not issued for the fire and police pension funds. The statement of fiduciary net position and the statement of changes in fiduciary net position for the pension funds can be found at the end of Note 8.

NOTE 8 – OTHER POST EMPLOYMENT BENEFITS (OPEB)

In addition to the Fire and Police Pension Plans described in Note 7 above, the City is also the administrator of the Fire and Police defined benefit post-employment healthcare plans.

Plan Descriptions

Both plans are closed single-employer defined benefit healthcare plans shown as trust funds in the City's financial reports. Separate financial statements are not issued. In accordance with RCW 41.26, the City provides lifetime medical care for firefighters and law enforcement officers employed prior to October 1, 1977. The City is self-insured and pays actual claims incurred by plan participants. The City carries individual and aggregate stop loss insurance to mitigate the risk associated with being self-insured. The plans are administered by the same boards that administer the Fire and Police Pension Plans as described in Note 7.

There are 2 active firefighter plan participants and 119 firefighter retirees currently receiving benefits. There are 1 active law enforcement plan participants and 85 law enforcement retirees currently receiving benefits.

Summary of Significant Accounting Policies

The Fire Healthcare Fund and the Police Healthcare Fund financial statements are prepared using the accrual basis of accounting. Employer contributions to each plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

Investments are reported at fair value, as provided by the custodian. Details on the investments of the Fire and Police Healthcare Funds are included in Note 4.

Funding Policy

Neither Fire nor Police retirees contribute towards the cost of his/her medical care. The primary sources of funding for both plans are property taxes levied by the City and interest earnings. In addition, the City receives a small Medicare D subsidy. In 2013, the City received $99,776 in Medicare D reimbursements, which were split between the two funds. Administrative costs are financed through interest earnings.

The City's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over the next 18 years. The following table shows the components of the City's annual OPEB costs for the year, the amounts actually contributed to the plans, and the change in the City's net OPEB asset.

	FIRE HEALTHCARE FUND	POLICE HEALTHCARE FUND
Annual Required Contribution (ARC)	$ 1,185,523	$ 1,075,155
Actuarial Adjustment to ARC	19,871	(48,359)
Interest on Net OPEB Obligation (Asset)	(22,079)	53,733
Annual OPEB Cost (expense)	1,183,315	1,080,529
Contributions Made	49,888	49,888
Increase / (Decrease) in OPEB Obligation	1,133,427	1,030,641
Net OPEB Obligation (Asset) at beginning of year	397,423	(967,185)
Net OPEB Obligation (Asset) at end of year	$ 1,530,850	$ 63,456

The negative net OPEB obligations shown above are the result of the City contributing in excess of its annual required contribution. The net OPEB asset has been recorded in the City's government-wide Statement of Net Position. Also below numbers reflects the re-characterization of the $6.3 million from Fire and $3.1 million for police trust funds from other post-employment benefits to pension, for adjustments were made earlier in 2011 and 2012.

THREE-YEAR TREND INFORMATION FOR FIRE AND POLICE HEALTHCARE FUNDS

	FIRE HEALTHCARE FUND		
Year Ending	Cost (AOC)	Percent of AOC Contributed by City	Net OPEB Obligation
December 31, 2013	$ 1,183,315	4.2%	$ 1,530,850
December 31, 2012	1,348,447	3.7%	397,423
December 31, 2011	1,285,206	4.4%	(901,484)

	POLICE HEALTHCARE FUND		
Year Ending	Cost (AOC)	Percent of AOC Contributed by City	Net OPEB Obligation
December 31, 2013	$ 1,080,529	4.6%	$ 63,455
December 31, 2012	1,099,211	4.5%	(967,185)
December 31, 2011	1,041,812	5.0%	(2,016,856)

Funded Status and Funding Progress

The funded status of each plan as of the most recent actuarial valuation date is as follows:

As of December 31, 2013 the Fire healthcare plan was 48% funded. The actuarial accrued liability for benefits was $44.5 million, the actuarial value of assets was $21.4 million, resulting in an unfunded actuarial accrued liability (UAAL) of $23.1 million. The covered payroll (annual payroll of active employees covered by the plan) was $622,642, and the ratio of the UAAL to the covered payroll was 3715.94%.

As of December 31, 2013 the Police Healthcare plan was 42% funded. The actuarial accrued liability for benefits was $32.6 million, the actuarial value of assets was $13.7 million, resulting in an unfunded actuarial accrued liability (UAAL) of $18.9 million. The covered payroll (annual payroll of active employees covered by the plan) was $362,732, and the ratio of the UAAL to the covered payroll was 5206.87%.

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

Actuarial Methods and Assumptions

An actuarial study is performed biennially for the Fire and Police OPEB funds. The most recent actuarial study of the Fire and Police OPEB Fund systems was computed by Northwest Plan Services to determine the funded status as of January 1, 2013. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The actuarial cost method used in the valuation was changed from the Aggregate Cost Method to Entry Age Cost method. This change was made to comply with most recent GASB guidance. Because the few remaining active employees covered under the plan are retirement eligible, this cost method change has absolutely no effect on the costs, amounts, or projections. Under Entry Age Cost method, actuarial normal cost is equal to zero and actuarial liability is equal to the present value of all future benefit expected to be paid, assuming a closed amortization period of 18 or 23 years and that the City's contribution will increase 5 percent each year. This amortization method approximates the level percentage of payroll amortization method.

The actuarial assumptions included (a) 5.0% annual investment return, (b) 12.0% increase in medical inflation rate for 2009, grading down to 5.5% over 13 years, changed from 12.0% in 2009 grading down to 7.5% over 9 years, (c) 5.0% annual increase in long-term care inflation rate, which is a new assumption for the current actuarial study, and (d) life expectancy based on RP-2000 mortality tables projected to 2015 with Scale AA.

Separate financial statements are not issued for the fire and police healthcare funds.   The statement of fiduciary net position, and the statement of changes in fiduciary net position for the healthcare and pension funds appear on the following page.

STATEMENT OF FIDUCIARY NET POSITION
DECEMBER 31, 2013

	637a POLICE PENSION FUND	637b POLICE HEALTHCARE FUND	638a FIRE PENSION FUND	638b FIRE HEALTHCARE FUND	TOTAL TRUST FUNDS
ASSETS					
Cash and cash equivalents	$ 526,659	$ (526,491)	$ 679,703	$ (639,633)	$ 40,238
Investments					
Agency Bonds	2,065,418	12,335,358	9,607,203	18,616,966	42,624,945
Accounts receivable - net	1,645	-	75	-	1,720
Interest receivable	-	-	-	7,805	7,805
TOTAL ASSETS	2,593,722	11,808,867	10,286,981	17,985,138	42,674,708
LIABILITIES					
Accounts payable	$ -	6,321	$ -	3,544	9,865
Interfund Loans Payable	-	66,000	-	-	66,000
TOTAL LIABILITIES	-	72,321	-	3,544	75,865
NET POSITION					
Held in trust for pension benefits and other purposes	**$ 2,593,722**	**$ 11,736,546**	**$ 10,286,981**	**$ 17,981,594**	**$ 42,598,843**

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2013

	637a POLICE PENSION FUND	637b POLICE HEALTHCARE FUND	638a FIRE PENSION FUND	638b FIRE HEALTHCARE FUND	TOTAL TRUST FUNDS
ADDITIONS:					
Contributions					
Employer	$ -	$ 49,888	$ -	$ 49,888	$ 99,776
State	-	-	155,946	-	155,946
Total contributions	-	49,888	155,946	49,888	255,722
Investment income					
Interest	82,346	1,350	137,129	548,796	769,621
Net appreciation (depreciation) in fair value	(14,383)	(1,090,655)	(35,727)	(2,720,738)	(3,861,503)
Net investment income	67,963	(1,089,305)	101,402	(2,171,942)	(3,091,882)
TOTAL ADDITIONS	**67,963**	**(1,039,417)**	**257,348**	**(2,122,054)**	**(2,836,160)**
DEDUCTIONS:					
Benefits	437,940	917,029	393,464	1,231,403	2,979,836
Administrative expense	125.00	22,258	505	22,258	45,146
TOTAL DEDUCTIONS	**438,065**	**939,287**	**393,969**	**1,253,661**	**3,024,982**
CHANGE IN NET POSITION					
Pension benefits	(370,102)		(136,621)		(506,723)
Postemployment healthcare benefits		(1,978,704)		(3,375,715)	(5,354,419)
NET POSITION RESERVED FOR EMPLOYEES' PENSION BENEFITS					
Employees' pension benefits, January 1	2,963,824		10,423,601		13,387,425
NET POSITION RESERVED FOR POSTEMPLOYMENT HEALTHCARE BENEFITS					
Postemployment healthcare benefits, January 1		13,715,250		21,357,310	35,072,560
NET POSITION - ENDING	**$ 2,593,722**	**$ 11,736,546**	**$ 10,286,980**	**$ 17,981,595**	**$ 42,598,843**

NOTE 9 - RISK MANAGEMENT

The City of Everett is exposed to various risks of loss from torts; theft of, damage to, or destruction of assets; business interruption; errors and omissions; injuries to employees; and natural disasters.

The City combines the reporting of risk management activities into one internal service fund – The Self-Insurance Fund – to account for and finance uninsured risks. All departments of the City make payments through interfund assessments to the self-insurance fund based on estimates of the amounts needed to pay prior and current year claims and to establish a reserve for catastrophic losses.

Effective 12/31/2012, the self-insured retention for general liability, auto liability (excluding transit), law enforcement liability, errors and omissions liability and employment practices liability increased from $1,000,000 to $1,250,000 per occurrence and remains at that level. Workers' compensation is self-insured, and effective July 1, 2013, subject to a maximum retention of $1,250,000 for all classifications per occurrence. Unemployment compensation costs are self-insured by paying the actual benefit cost.

The liability arising out of the operations of the George Culmback Dam are also self-insured. The Culmback Dam is a joint project with Snohomish County PUD No. 1. As such, payment of claims and expenses would be jointly shared between the two entities. To date, there has never been a claim made arising out of the dam operations. The reserve balance in said fund is sufficient to address the current self-insured retention of $2,000,000.

The City purchases commercial insurance for claims in excess of the self-insured retentions and for all other risks of loss. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

Everett Transit is a member of the Washington State Transit Insurance Pool (WSTIP). Liability coverage is provided through the Pool with limits of $20,000,000 and a $0 deductible for auto and general liability, and limits of $12,000,000 with a $5,000 deductible for public officials liability.

Claims liabilities are based on the estimated ultimate cost of settling the claim, including case reserves and incurred but not reported (IBNR) claims. Case reserves for general, auto (excluding Transit), employment and law enforcement liabilities are estimated and projected by the Risk Management Division and the City's third-party administrator on a case-by-case basis using historical experience. Case reserves for Transit liability claims are estimated by the Transit pool, WSTIP. Case reserves for workers' compensation claims are estimated by the City's third-party administrator using statistical reserving formulas and historical experience. Claims liabilities include estimates for expenses related to adjusting/investigating and defending the claim or lawsuit.

At December 31, 2013, the estimated liability totaled $12,000,002, consisting of $8,177,179 for tort liability, $3,700,423 for workers' compensation, and $122,400 for unemployment compensation. These estimates are based on the provisions of Governmental Accounting Standards Board Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Claims liabilities are not discounted.

Changes in the funds' claims liability amounts in fiscal years 2012 and 2013 appear as follows:

	BALANCE AT BEGINNING OF YEAR	CLAIMS	CHANGE IN ESTIMATE	PAYMENTS	BALANCE AT END OF YEAR
Tort Liability:					
2013	5,840,600	4,529,712	(290,929)	(1,902,204)	8,177,179
2012	5,555,138	1,900,171	(428,711)	(1,185,998)	5,840,600
Workers' Compensation:					
2013	7,773,702	1,691,515	(3,709,320)	(2,055,474)	3,700,423
2012	4,683,197	1,496,569	3,994,410	(2,400,474)	7,773,702
Unemployment Compensation:					
2013	150,772	160,062	(126)	(188,308)	122,400
2012	161,109	197,163	24,457	(231,957)	150,772

In 1995, the City created a self-insured health benefits program for its employees as a means to contain rising health benefit costs. The Health Benefits Reserve Fund 508 was established to account for the disbursement of actual medical expenses, associated administrative costs, and reserves for this program.

In order to mitigate its risk exposure, the City holds individual and aggregate stop loss insurance, and maintains both claims fluctuation and liability reserves. The claims fluctuation reserve was $500,000, and the liability reserve was $1,775,896 at December 31, 2013. The liability reserve is equal to eight weeks of estimated claims based on an analysis of the most recent twelve months of incurred claims with applied monthly completion factors, as required by Washington Administrative Code (WAC) 200-110-040(a). As of December 31, 2013, the Health Benefit Reserve Fund was underfunded by $1,332,726, pursuant to WAC 200-110-040(c)(ii). The City is in the process of developing a plan to fully fund the Health Benefit Reserve.

Changes in the fund's claims liability in fiscal years 2012 and 2013 appear as follows:

	BALANCE AT BEGINNING OF YEAR	CLAIMS	CHANGE IN ESTIMATE	PAYMENTS	BALANCE AT END OF YEAR
IBNR Liability:					
2013	1,633,242	10,075,996	142,654	(10,075,996)	1,775,896
2012	1,870,053	9,808,037	(236,811)	(9,808,037)	1,633,242

NOTE 10 - LONG-TERM DEBT

General Obligation Bonds

The City issues general obligation bonds to finance the purchase, acquisition, and/or the construction of capital assets. General obligation bonds have been issued for both general government and business-type activities and are being repaid from the applicable resources. General obligation bonds are direct obligations and pledge the full faith and credit of the government. These bonds generally are issued as 20 to 25-year serial bonds with equal amounts of principal maturing each year.

General obligation bonds outstanding at December 31, 2013 are as follows:

NAME OF ISSUE / PURPOSE	DATE OF ISSUE	DATE OF FINAL MATURITY	INTEREST RATE(S)	AMOUNT ORIGINALLY ISSUED	REDEMPTIONS TO DATE	DEBT OUTSTANDING
Governmental Activities						
01 Variable Rate Demand Bonds - capital	12-13-01	12-13-21	Variable	13,000,000	3,200,000	9,800,000
12 LTGO and Refunding Bonds - capital	10-04-12	12-01-26	2.00-4.00%	13,935,000	900,000	13,035,000
Total Governmental Activities				26,935,000	4,100,000	22,835,000
Business Activities						
10 LTGO Bonds - capital	03-26-10	12-01-19	1.00-4.25%	10,500,000	4,500,000	6,000,000
Total Business Activities				10,500,000	4,500,000	6,000,000
TOTAL GENERAL OBLIGATION BONDS				**$ 37,435,000**	**$ 8,600,000**	**$ 28,835,000**

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

	GOVERNMENTAL ACTIVITES			BUSINESS-TYPE ACTIVITES		
YEAR ENDING DECEMBER 31,	PRINCIPAL	INTEREST	TOTAL REQUIREMENTS	PRINCIPAL	INTEREST	TOTAL REQUIREMENTS
2014	2,240,000	567,050	2,807,050	1,000,000	208,750	1,208,750
2015	1,585,000	459,850	2,044,850	1,000,000	182,500	1,182,500
2016	2,125,000	524,300	2,649,300	1,000,000	152,500	1,152,500
2017	2,115,000	508,550	2,623,550	1,000,000	120,000	1,120,000
2018	2,210,000	493,100	2,703,100	1,000,000	82,500	1,082,500
2019 - 2023	11,125,000	1,358,750	12,483,750	1,000,000	42,500	1,042,500
2024 - 2026	1,435,000	59,305	1,494,305	-	-	-
TOTAL	**$22,835,000**	**$ 3,970,905**	**$ 26,805,905**	**$ 6,000,000**	**$ 788,750**	**$ 6,788,750**

Interest on the 2001 Variable Rate Demand Bonds is paid monthly at a rate to be determined weekly using the Securities Industry and Financial Markets Association Municipal Swap Index. The rate in effect at 12/31/13 was 0.05%. In addition, the City pays a quarterly management fee assessed at 50 basis points on the outstanding principal balance and an annual remarketing fee assessed at 10 basis points on the outstanding principal balance. These bonds contain a put feature that allows bondholders to demand payment at par with seven days notice. As a condition to the issuance of the Bonds, the City obtained a direct pay letter of credit issued by Bank of New York. The Letter of Credit is an irrevocable obligation of the Bank with an available amount equal to the sum of the outstanding principal plus 35 days of interest. This Letter of Credit will remain in force until November 16, 2014, at which time the City will seek a renewal. The bonds are also subject to redemption, in whole or in part, at the option of the City on any interest payment date at a redemption price equal to the principal amount thereof. The entire issue matures December 1, 2021.

Revenue Debt

The City issues bonds where the City pledges income derived from the acquired or constructed assets to pay the debt service.

The revenue bonds listed below will be repaid solely from water/sewer customer net revenues and are payable through 2035. The total principal and interest remaining to be paid on the bonds is $228,074,591. Principal and interest expense for the current year and total customer net revenues were $10,313,431 and $22,357,798 respectively.

Proceeds from the bonds were used for capital purposes related to improving the water/sewer system including; water distribution system improvements, pipeline replacements, water tanks rehabilitation, wastewater pollution control facility expansion, sewer system capacity improvements, and sewer system replacements.

The City issued $62,145,000 in Water and Sewer Revenue Refunding Bonds with interest rate ranging from 2.25% to 5.00%. The proceeds were used to advance refunding $35,190,000 of outstanding Water and Sewer Revenue Refunding Bonds, 2003 and advance refunding $31,900,000 of certain maturities of Water and Sewer Revenue Refunding Bonds, 2005, which had interest rates ranging from 4.25% to 5.00%. The net proceeds, including a $9,049,474 in premium and $278,885 in underwriting fees and other issue costs, were deposited in an irrevocable trust with an escrow agent to provide funds for future debt service payment on the refunded bonds. As a result, the refunded bonds are considered defeased, and the liability for those bonds has been removed from the statement of net assets.

As a result of the advanced refunding, the City reduced its total debt service requirements by $13,612,396, which resulted in an estimated economic gain (difference between the present value of the debt service payments on the old and new debt) of $$10,496,878.

Revenue bonds outstanding at December 31, 2013 are as follows:

NAME OF ISSUE / PURPOSE	DATE OF ISSUE	DATE OF FINAL MATURITY	INTEREST RATE(S)	AMOUNT ORIGINALLY ISSUED	REDEMPTIONS TO DATE	DEBT OUTSTANDING
05 Water/Sewer Revenue Bonds - capital	10-14-05	12-01-30	3.75-5.0%	35,000,000	33,150,000	1,850,000
09 Water/Sewer Revenue Bonds - capital	12-01-09	12-01-33	2.0-5.0%	40,000,000	5,815,000	34,185,000
11 Water/Sewer Revenue Bonds - capital	03-09-11	12-01-35	2.5-5.0%	51,000,000	-	51,000,000
13 Water/Sewer Revenue Bonds - capital	3/1/2013	12/1/1930	3.0-5.0%	62,145,000	1,300,000	60,845,000
TOTAL REVENUE BONDS				**$ 188,145,000**	**$ 40,265,000**	**$ 147,880,000**

Annual debt service requirements to maturity for revenue bonds are as follows:

	BUSINESS-TYPE ACTIVITIES		
YEAR ENDING DECEMBER 31,	PRINCIPAL	INTEREST	TOTAL REQUIREMENTS
2014	4,915,000	8,160,314	13,075,314
2015	5,125,000	7,949,189	13,074,189
2016	5,370,000	6,164,727	11,534,727
2017	5,600,000	5,938,627	11,538,627
2018	5,825,000	5,710,352	11,535,352
2019 - 2023	33,710,000	23,979,309	57,689,309
2024 - 2028	42,790,000	15,483,503	58,273,503
2029 - 2033	37,445,000	6,271,820	43,716,820
2034 - 2035	7,100,000	536,750	7,636,750
TOTAL	**$ 147,880,000**	**$ 80,194,591**	**$ 228,074,591**

Debt Defeasance

As noted above, the City has defeased revenue bonds by creating a separate irrevocable trust fund. New debt has been issued and the proceeds have been used to purchase US government securities that were placed in the trust fund. The 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 has been considered defeased and therefore removed as a liability from the City's government wide financial statements. As of December 31, 2013, the amount of defeased debt outstanding was $65,460,000.

Other Long Term Debt

The City has received government loans and other notes to provide for construction of capital projects. The Snohomish County/Everett Memorial Stadium loan will be paid from the Hotel/Motel Tax Fund 138. The Governmental Activities Public Works Trust Fund loans will be paid from the Real Estate Excise Tax Fund 154. The Business Activities Public Works Trust Fund loans, State Revolving Fund loans, and property purchase loans will be paid from water/sewer revenues.

Other long-term debt outstanding, as of December 31, 2013, is presented below:

NAME OF ISSUE/PURPOSE	DATE OF ISSUE	DATE OF FINAL MATURITY	INTEREST RATE(S)	AMOUNT ORIGINALLY ISSUED	REDEMPTIONS TO DATE	DEBT OUTSTANDING
Governmental Activities						
Snohomish County/Everett Memorial Stadium	06-30-95	06-30-14	0.00%	$ 1,046,220	$ 993,909	$ 52,311
Public Works Trust Fund Loan - 75th Street	09-23-96	07-01-16	2.00%	930,880	757,701	173,179
Public Works Trust Fund Loan - Riverfront	04-28-99	07-01-18	2.00%	1,000,000	729,102	270,898
Public Works Trust Fund Loan - 112th Street	12-22-02	07-01-22	0.50%	1,000,000	504,112	495,888
Total Governmental Activities				3,977,100	2,984,824	992,276
Business Activities						
PWTFL Water Transmission Line	06-06-94	07-01-14	3.00%	3,500,000	3,314,766	185,234
PWTFL Water Transmission Line	08-02-95	07-01-15	1.00%	651,183	595,549	55,634
PWTFL Sewer Basement Flooding Reduction	07-01-01	07-01-21	1.00%	1,881,000	1,089,000	792,000
PWTFL Water Transmission Line	07-01-01	07-01-21	1.00%	4,252,792	2,464,892	1,787,900
PWTFL Cross-Town Effluent Pipeline	05-13-03	07-01-23	0.50%	5,490,000	2,592,500	2,897,500
PWTFL Water Transmission Lines #2-3	11-17-03	11-17-23	0.50%	841,671	392,534	449,137
PWTFL Treatment Plant Upgrade	04-25-05	07-01-25	0.50%	9,500,000	3,166,667	6,333,333
SRF Clearwell No. 2	03-03-06	10-01-25	1.50%	4,040,000	1,369,115	2,670,885
SRF Clearwell No. 2	12-21-07	10-01-26	1.50%	4,040,000	1,275,789	2,764,211
SRF Clearwell No. 2	03-03-08	10-01-27	1.50%	3,030,000	797,369	2,232,631
SRF Clearwell No. 2	08-22-08	10-01-29	1.50%	4,040,000	840,206	3,199,794
SRF Recovered Water Outfall	08-05-09	10-01-29	1.50%	1,376,473	217,275	1,159,198
SRF Bond Street CSO	10-13-10	10-31-31	2.90%	861,373	42,975	818,398
PWTFL Water Pollution Facility Expansion	06-25-06	07-01-26	0.50%	7,000,000	2,210,526	4,789,474
Mukilteo Water District	01-01-11	09-30-24	7.82%	140,883	41,536	99,346
PWTFL PC13-961-008	01-10-13	06-01-32	2.00%	1,911,595	-	1,911,595
Leases Payable	05-15-03	07-01-17	2.00-5.00%	54,098	-	54,098
Total Business Activities				52,611,067	20,410,699	32,200,367
TOTAL OTHER LONG-TERM DEBT				**$ 56,588,167**	**$ 23,395,524**	**$ 33,192,643**

Annual debt service requirements to maturity for other long-term debt are as follows:

	GOVERNMENTAL ACTIVITES			BUSINESS-TYPE ACTIVITES		
YEAR ENDING DECEMBER 31,	PRINCIPAL	INTEREST	TOTAL REQUIREMENTS	PRINCIPAL	INTEREST	TOTAL REQUIREMENTS
2014	219,316	6,920	226,236	2,860,460	357,846	3,218,306
2015	167,005	5,526	172,531	2,633,424	306,404	2,939,827
2016	167,006	4,131	171,137	2,606,990	278,011	2,885,000
2017	109,279	2,737	112,015	2,599,322	249,869	2,849,191
2018	109,278	1,919	111,197	2,590,540	222,844	2,813,384
2019 - 2023	220,393	2,755	223,148	12,270,773	719,441	12,990,214
2024 - 2028	-	-	-	6,034,673	196,936	6,231,609
2029 - 2032	-	-	-	604,186	13,611	617,798
TOTAL	**$ 992,276**	**$ 23,988**	**$ 1,016,264**	**$ 32,200,367**	**$ 2,344,962**	**$ 34,545,329**

Bond Covenants, Limitations and Restrictions

At December 31, 2013, restricted assets of enterprise funds include $13,204,386 for bond redemption. The City has also purchased a surety policy for the 2002 Water and Sewer Revenue Bonds. These represent redemption funds and reserve requirements as contained in the various bond ordinances.

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

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 debt capacity 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 (1.0%), 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 with a 60 percent vote in favor of the issue by at least 40 percent of the voters voting in the last general election.

At December 31, 2013 the debt limits for the City were as follows:

	Governmental Purposes				Water & Sewer Purposes		Park & Capital Facilities	
	Without Vote (Councilmanic) 1.50%		With Vote 1.00%		With Vote 2.50%		With Vote 2.50%	
Legal Limits, Net	$	159,402,128	$	106,268,085	$	265,670,214	$	265,670,214
Net Outstanding Indebtedness		40,140,901		-		-		-
Margin Available	**$**	**119,261,227**	**$**	**106,268,085**	**$**	**265,670,214**	**$**	**265,670,214**

Only general obligation debt is subject to the legal debt limit capacity restrictions. Revenue bonds and Local Improvement District (LID) bonds are not limited because no taxing power or general fund pledge is provided as security.

NOTE 11 - LEASES AND OTHER CONTRACTUAL COMMITMENTS

Lease Receivables

Everett Transit owns transportation hub Everett Station, and leases office and retail space. As of December 31, 2013, the asset cost of Everett Station was $47,049,382, with accumulated depreciation of $11,966,949, resulting in a cost net of depreciation of $35,082,433. Noncancelable leases provide for minimum annual payments as follows:

Year Ending December 31	Minimum Future Rentals	
2014	$	395,904
2015		38,367
2016		38,367
Total	$	472,638

Operating Leases and Other Contractual Commitments

The City leases equipment and office and storage space under noncancelable operating leases. Total operating lease expenditures for 2013 were $503,427 in governmental activities and $553,571 in business-type activities. The City also contracts for certain professional services such as the management of golf courses and parking facilities and the monitoring and maintenance of equipment such as elevators, heating, ventilation and air conditioning, and fire alarm systems in City buildings. Commitments under lease and professional service contractual agreements provide for minimum annual payments as follows:

Year Ending December 31	Leases		Professional Services	
2014	$	431,946	$	1,210,186
2015		372,822		654,018
2016		13,223		286,768
2017		-		177,567
Total	$	817,991	$	2,328,539

Capital Leases

The City's Library and Water and Sewer Utility Fund have entered into capital leases to finance the acquisition of mail machines. The leases were recorded at the present value of their future minimum lease payments as of the inception date.

The assets acquired through capital leases as of December 31, 2013 appear as follows:

	Governmental Fund	Enterprise Funds
Machinery and equipment	$ 7,977	$ 60,557
Less accumulated depreciation	(6,381)	-
Machinery and equipment, net of depreciation	$ 1,596	$ 60,557

The future minimum lease obligations and the net present value of minimum lease payments as of December 31, 2013 appear as follows:

Year Ending December 31	Governmental Fund	Enterprise Funds
2014	1,100	13,614
2015	-	18,153
2016	-	18,153
2017	-	13,614
Total minimum lease payments	1,100	63,534
Less amounts attributable to interest	(42)	(9,436)
Net present value of minimum lease payments	$ 1,058	$ 54,098

Construction Commitments

As of December 31, 2013, the City had other outstanding contractual commitments, which include construction and engineering contracts for capital projects currently in progress. The City's major significant outstanding contract obligations are summarized as follows:

PROJECT	Expended To Date	Remaining Commitment
Various City facilities Roofing/Siding projects	$ 91,872	$ 192,158
2013 HOT MIX ASPHALT OVERLAY	1,988,487	370,663
Broadway Bridge Replacement - Phase 1	1,612,163	357,811
36TH ST/BNSF RAIL LINE NON-MOTORIZED	218,708	256,709
Everett parks improvement projects	41,580	116,322
Everett Transit various improvement projects	375,325	525,624
41ST STREET EXTENSION & ROUNDABOUT	6,273,301	93,122
SEWER LIFT STATION #24	4,077,297	743,872
WPCF Phase C Improvements	2,723,526	3,792,708
Bond St. CSO Control Facilities Project	2,617,982	47,618
Everett Sewer "M" Project	1,171,129	262,776
Riverfront Development	6,775,219	299,106
Lift Station #24 Replacement	1,499,030	99,836
Pipeline from Everett to Tulalip Reservation	8,406,549	328,044
Sewer Replacement & Capacity Improvement "L"	1,548,576	874,490
Total	$ 39,420,744	$ 8,360,859

NOTE 12 – CHANGES IN LONG-TERM LIABILITIES

Changes in Long-term Liabilities

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

	Beginning Balance 01-01-13	Additions	Reductions	Ending Balance 12-31-13	Due Within One Year
Governmental Activities					
Bonds payable:					
General obligation bonds	$ 23,490,000	$ -	$ (655,000)	$ 22,835,000	$ 2,240,000
Plus deferred amounts:					
For issuance premiums	985,337	-	(70,381)	914,956	70,381
Total bonds payable:	24,475,337	-	(725,381)	23,749,956	2,310,381
Governmental loans	1,211,590	-	(219,316)	992,274	219,316
Pollution remediation liability	5,033,950	50,000	(75,000)	5,008,950	275,000
Capital Leases	2,973	-	(1,916)	1,057	1,057
OPEB Obligations	-	2,263,844	(669,538) *	1,594,306	-
Claims and judgements	15,398,316	12,599,564	(14,221,982)	13,775,898	5,143,068
Compensated absences	10,450,461	7,924,238	(7,910,307)	10,464,392	4,200,027
Governmental activity long-term liabilities:	$ 56,572,627	$ 22,837,646	$ (23,823,440)	$ 55,586,833	$ 12,148,849
Business-Type Activities					
Bonds payable:					
General obligation bonds	$ 7,000,000	$ -	$ (1,000,000)	$ 6,000,000	$ 1,000,000
Revenue bonds	156,055,000	62,145,000	(70,320,000)	147,880,000	4,915,000
Plus deferred amounts:					
For issuance premiums	6,857,565	21,312,244	(15,943,689)	12,226,120	578,149
Total bonds payable:	169,912,565	83,457,244	(87,263,689)	166,106,120	6,493,149
Governmental loans	34,021,793	1,911,595	(3,787,114)	32,146,274	2,846,293
Pollution remediation liability	300,000	-	-	300,000	-
Capital leases	12,782	54,098	(12,782)	54,098	13,800
Compensated absences	1,984,044	2,602,989	(2,548,528)	2,038,505	1,258,711
Business-type activity long-term liabilities:	$ 206,231,184	$ 88,025,926	$ (93,612,113)	$ 200,644,997	$ 10,611,953

* At the beginning of the year, the City had negative net OPEB obligation of $569,762 as the City contributed in excess of its annual required contribution in prior years. The reduction amount includes the negative beginning net OPEB obligation.

Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities related to internal service funds are included as part of the above totals for governmental activities. At year-end $151,825 of internal service funds compensated absences are included in the above amounts. Also, for governmental activities, claims and judgments and compensated absences are generally liquidated by the general fund.

NOTE 13 – CONTINGENCIES AND LITIGATION

In the normal course of its various operations, the City is involved in lawsuits and is the recipient of claims for damages alleging the City is responsible for damage incurred by third parties. Claims and/or litigation arise in such areas as police civil liability, automobile liability, street and sidewalk design and/or maintenance, zoning, building and other land-use regulations, equipment operation, as well as other areas. These claims or lawsuits are a relatively natural consequence of conducting the City's business. The City of Everett self-insures to cover the majority of its liability risk.

The City has recorded in its financial statements all material liabilities, including an estimate for situations which are not yet resolved, but where, based on available information, management believes it is probable that the City will have to make payment. In the opinion of management, the City's insurance policies and self insurance reserves are adequate to pay all known or pending claims.

As of December 31, 2013, the City is also contingently liable for $27,415,000 of 2007 Variable Rate Project Revenue Bonds issued by the Public Facilities District. Please see the Reporting Entity section of Note 1 for more details.

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

NOTE 14 - INTERFUND BALANCES AND TRANSFERS

Loans between funds are classified as either interfund loans receivable and payable or advances to and from other funds, depending on the time period for which the loan was made. The City uses interfund loans primarily to meet short-term cash flow requirements while waiting for grant reimbursements.

Advances to and from other funds are typically loans that are not expected to be repaid within one year from the date of the financial statements. There is currently one outstanding advance between the General Fund and Golf. It was established to internally finance Golf general obligation bonds that were called in 2007 and 2008 and to finance operating deficits that occurred in 2008 and early 2009. All long-term advances have planned repayment schedules.

Interfund loan balances at December 31, 2013 appear as follows:

	INTERFUND LOANS RECEIVABLE	INTERFUND LOANS PAYABLE	ADVANCES TO OTHER FUNDS	ADVANCES FROM OTHER FUNDS
General Fund	$ 99,550	$ -	$ 7,319,168	$ -
Nonmajor Governmental Funds	855,000	888,550	-	-
Nonmajor Enterprise Funds	-	-	-	7,319,168
Fiduciary Fund	-	66,000	-	-
TOTAL	**$ 954,550**	**$ 954,550**	**$ 7,319,168**	**$ 7,319,168**

Due to other funds and due from other funds result from goods issued, work performed or services rendered to or for the benefit of another fund of the same government.

Due to other fund and due from other fund balances at December 31, 2013 appear as follows:

	DUE FROM OTHER FUNDS	DUE TO OTHER FUNDS
General Fund	$ 62,990	$ 77,373
Capital Improvement Reserve	-	58,776
Water & Sewer Utility	-	3,885
Transit	1,575	-
Nonmajor Governmental Funds	77,373	329
Internal service funds	-	1,575
TOTAL	**$ 141,938**	**$ 141,938**

Interfund transfers are the flow of assets without a reciprocal return of assets, goods or services in return. 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, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Interfund transfer activity for the year ending December 31, 2013 appears as follows:

	TRANSFERS IN					
	General Fund	Capital Improvement Reserve Fund	Nonmajor Governmental Funds	Enterprise Funds	Internal Service Funds	TOTAL
TRANSFERS OUT						
General Fund	$ -	$ -	$ 2,147,482	$ 3,800	$ 20,816	$ 2,172,098
Capital Improvement Reserve Fd	990,776	-	1,703,822	-	-	2,694,598
Water & Sewer Utility	3,692,400	-	-	-	-	3,692,400
Transit	193,272	-	400,000	-	-	593,272
Nonmajor Governmental Funds	388,499	385,477	3,120,736	-	-	3,894,712
TOTAL	**$ 5,264,947**	**$ 385,477**	**$ 7,372,040**	**$ 3,800**	**$ 20,816**	**$ 13,047,080**

A transfer is considered significant if it is for a transaction that does not occur on a routine basis or is inconsistent with the customary activities of the fund making the transfer. In 2013, the following significant transfers were completed to provide funding for under expenditure for the CIP4.

- $1,000,000 from Fund 002 - General Fund, to Fund 119 - Public Works - Street Improvement, a Special Revenue fund.
- $217,938 from Fund 162 – Capital Projects Reserve, to Fund 303 - Public Works Improvement, a Capital Project fund.
- $164,461 from Fund 162 - Capital Projects Reserve, to Fund 308 - Riverfront Development, a Capital Project fund.
- $520,000 from Fund 162 - Capital Projects Reserve, to Fund 342 - City Facilities Construction, a Capital Project fund.
- $400,000 from Fund 425 Public Works - Transit, to Fund 303 - Public Works Improvement, a Capital Project fund.

NOTE 15 – RECEIVABLE AND PAYABLE BALANCES

Receivables at December 31, 2013 appear as follows:

	Taxes	Customer Accounts	Interest	Due from Other Governments	Notes Receivable	TOTAL
Governmental Activities:						
General Fund	$ 10,373,147	$ 2,416,380	$ 77,706	$ 535,002	$ 59,497	$ 13,461,732
Capital Improvement Reserve Fund	174,539	35,161	13,412	-	-	223,112
Nonmajor Governmental Funds	174,539	233,695	41,999	577,235	13,603,859	14,631,327
Internal Service Funds	-	30,507	10,632	-	-	41,139
Total Governmental Activities	$ 10,722,225	$ 2,715,743	$ 143,749	$ 1,112,237	$ 13,663,356	$ 28,357,310
Business-Type Activities:						
Water & Sewer Utility	$ -	$ 5,902,041	$ 103,792	$ 2,745,745	$ -	$ 8,751,578
Transit	3,093,015	10,292	7,193	625,386	-	3,735,886
Nonmajor Enterprise Funds	-	263,054	2,832	98,343	-	364,229
Total Business-Type Activities	$ 3,093,015	$ 6,175,387	$ 113,817	$ 3,469,474	$ -	$ 12,851,693

Governmental Activities

General Fund - Customer Accounts include $2,264,873 Muni Court receivable and $66,000 pension fund receivable reported in the Government Wide Statement of Net Position

General Fund - Notes Receivable excludes $1,080,503 discount on notes reported in the Government Wide Statement of Net Position

Payables at December 31, 2013 appear as follows:

	Wages & Benefits	Accounts	Interest	Taxes	Due to Other Governments	Custodial Accounts	Other Liabilities	TOTAL
Governmental Activities:								
General Fund	$5,039,030	$1,752,027	$ 38,113	$ -	$ 83,681	$ 964,356	$ 146,709	$ 8,023,916
Nonmajor Governmental Funds	$711,536	615,239	-	-	27	-	1,870	1,328,672
Internal Service Funds	111,902	923,126	-	-	-	-	79,904	1,114,932
Total	$ 5,862,468	$ 3,290,392	$ 38,113	$ -	$ 83,708	$ 964,356	$ 228,483	$ 10,467,520
Business-Type Activities:								
Water & Sewer Utility	$ 984,873	$ 2,062,229	$ 660,638	$ 87,367	$ -	$ -	$ 2,520	$ 3,797,627
Transit	525,072	399,739	-	2,793	603,074	-		1,530,678
Nonmajor Enterprise Funds	32,073	412,554	17,395	7,461	-	-	-	469,483
Total	$ 1,542,017	$ 2,874,522	$ 678,033	$ 97,621	$ 603,074	$ -	$ 2,520	$ 5,797,787

The wages and benefits total excludes the following short term vacation and sick leave accruals which are included with non-current liabilities at the entity wide level:

Governmental Activities	
Internal Service Fund	$ 92,300
Business-Type Activities	
Water and Sewer	$ 856,753
Transit	378,659
Nonmajor Enterprise	23,298

NOTE 16 – JOINT VENTURES

Joint Ventures - The City, in conjunction with other governmental entities, participates in three joint ventures. Using the same criteria applied to the other organizations to determine the reporting entity, these joint ventures have not been included in the City's annual financial statements.

The **Snohomish River Regional Water Authority** (SRRWA) was created for the planning, development, ownership, management and financing of water supply sources and transmission, and other water supply facilities, either by itself or in cooperation with other municipal providers of utilities. The primary purpose is to facilitate efficient water resource development and utilization through interlocal cooperation. The SRRWA board is comprised of one representative of each of three members, who is an elected public official designated in writing, authorized to represent the member in meetings of the membership and Board of Directors. The City has a 41.67 percent interest in the joint venture at December 31, 2013 and recorded an investment in the joint venture in the utility fund of $669,332. As of December 31, 2013, the SRRWA had accumulated sufficient resources and was not experiencing any fiscal stress. Separate financial statements for the joint venture may be obtained from the City of Everett, Utilities Finance Manager, 3200 Cedar Street, Everett, WA 98201.

The **Snohomish County Emergency Radio System** (SERS), a nonprofit corporation pursuant to chapter 24.06 RCW and IRC 501(c)(3), was established via an interlocal agreement in 1999. Member entities include Snohomish County, Fire District 1, and the Cities of Brier, Edmonds, Lynnwood, Marysville, Mill Creek, Mountlake Terrace, Mukilteo, Woodway, and Everett. The purpose of SERS is to develop, operate and maintain a countywide public safety communications system. The governing board consists of ten directors, one appointed by each City and County member, with the authority to take all actions on behalf of SERS. A cost allocation model is used to determine each Member's share of financial obligations and voting weight from time to time. The cost allocation model is reviewed and recalculated annually to reflect population, geographic service area and calls for service from January 1 through December 31 of each year. As of December 31, 2013, the City has a 15.63 percent interest in the SERS joint venture and a recorded equity interest of $1,764,755. Based on summary financial information provided to the City by Snohomish County, it does not appear that SERS is experiencing any fiscal stress. Separate financial statements for the joint venture may be obtained from Snohomish County, Finance Department, 3000 Rockefeller Avenue, Everett, WA 98201.

One Regional Card for All (ORCA) was established by interlocal agreement for the operating phase of the Regional Fare Integration Project also known as the Smart Card Project. This ten-year agreement among City of Everett (Everett Transit), Snohomish County Transit Authority (Community Transit), Sound Transit, King County Metro, Pierce Transit, Kitsap Transit and Washington State Ferries commenced April 1, 2009. Pursuant to the Interlocal Cooperation Act, chapter 39.34 RCW, the participating agencies jointly exercise their powers to better coordinate their respective services and fare payment systems in order to improve the availability, reliability and convenience of public transportation services within their service areas and throughout the region served by the agencies. Everett Transit's undivided interest in the assets, liabilities and operations of the ORCA smart card are consolidated within these financial statements on a proportionate basis. Everett Transit's interest in the central cash accounts as of December 31, 2013, is $109,554 which represents deferred fare revenue. Everett Transit's percentage share of the operating expense for 2013 was 1.61%. Separate financial statements for the joint venture may be obtained from Sound Transit, ORCA Regional Fare Coordination System, 401 S Jackson St, Seattle, WA 98104-2826.

NOTE 17 – POLLUTION REMEDIATION OBLIGATIONS

The City recorded the following pollution remediation obligations as other liabilities in its financial statements as of December 31, 2013, in accordance with GASB Statement No. 49:

SITE	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES
145 Alverson Boulevard	$ 3,133,900	
4000 Block South Second Avenue	1,400,000	
3003 Colby Avenue	200,000	
2731 36th Street Southeast	225,000	
2808 10th Street	50,050	
144 West Marine View Drive		$ 300,000
TOTALS	**$ 5,008,950**	**$ 300,000**

The site located at 145 Alverson, Everett, Washington was identified as contaminated by releases from the neighboring former ASARCO plant. As of December 31, 2013, the City estimated the liability with regard to pollution remediation at this site to be $3,133,900.

The City identified a release of contaminants at the 4000 block of South Second Avenue, Everett, Washington, and is pursuing a Voluntary Cleanup Program (VCP) agreement with the Washington State Department of Ecology (DOE). As of December 31, 2013, the City estimated the liability with regard to pollution remediation at this site to be $1,400,000.

The City identified a release of contaminants at 3003 Colby Avenue, Everett, Washington, and is pursuing a VCP agreement with the DOE. As of December 31, 2013, the City estimated the liability with regard to pollution remediation at this site to be $200,000.

The City identified a release of contaminants at 2731 36th Street Southeast, Everett, Washington, and entered into a VCP agreement with the DOE to remediate the site in previous periods. The City remediated the site during 2010 and continued to test the site. As of December 31, 2013, the City concluded that additional remediation was needed, and estimated the liability with regard to pollution remediation at this site to be $225,000.

The site located at 2808 10th Street, Everett, Washington was identified as contaminated by releases from the neighboring former ASARCO plant. As of December 31, 2013, the City estimated the liability with regard to pollution remediation at this site to be $50,050.

The site located at 144 West Marine View Drive, Everett, Washington had previously been identified as contaminated by releases from the neighboring former ASARCO plant. The City voluntarily remediated the site in 1998 in conjunction with a VCP agreement with the DOE. The City had expected to receive a notice of no further action from the DOE upon completion of the DOE's Final Cleanup Action Plan for ASARCO. The City's original VCP agreement expired, a new VCP agreement was reinstated in 2008, and the DOE requested the City to send the DOE an analysis of current soil samples at the site. The City engaged an independent engineering firm to analyze soil samples at the site and submit its findings to the DOE, this work was performed during 2009, and the City submitted several alternative remediation proposals to the DOE for consideration. As of December 31, 2013, the City estimated liability with regard to pollution remediation at this site to be $300,000.

The estimated liability for each of these sites was prepared using the Expected Cash Flow Technique, which measures the liability as the sum of probability-weighted amounts in a range of possible estimated amounts. This is an estimate only, and potential for change exists resulting from price fluctuations, technology changes or changes in applicable laws or regulations. The estimates and underlying assumptions will be re-evaluated on an annual basis.

NOTE 18 - OTHER DISCLOSURES

A. CHANGES IN ACCOUNTING PRINCIPLES

During the year ended December 31, 2013 the City of Everett implemented GASB Statement No. 65, Items Previously Reported as Assets and Liabilities. GASB Statement No. 65 establishes accounting and financial reporting standards that reclassifies, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflow of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The result of implementation was direct adjustment to net position in the amount of $178,003 in governmental activities and $1,744,127 in business-type activities to eliminate the unamortized debt issuance costs.

B. SUBSEQUENT EVENTS

As detailed in Note 1, the City formed a community development entity (CDE), named the “City of Everett CDE LLC,” and this entity was allocated $25 million in New Market Tax Credits (NMTC) by the US Treasury Department in 2009. In May 2014, NMTC equity investment (QEI) financing was completed for the $25 million, which will be used to fund several qualified low-income community investments (QLICIs).

The Everett Public Facilities District (PFD) was notified on March 27, 2014 that Standard and Poor’s Rating Services, as part of its regularly scheduled semi-annual review, had lowered their rating on the Limited Sales Tax and Interlocal Revenue bonds from “A-” to “BBB.”

In April, the PFD was notified by the Bank of New York, that due to market conditions apart from the Standard and Poor’s rating downgrade, that it would not be renewing the Letter of Credit it has with PFD upon its expiration in December 2014. The PFD is working with the City of Everett to secure a replacement lender.

In June 2014, the City council adopted an ordinance establishing a Transportation Benefit District (TBD) known as the Everett Transportation Benefit District. The state legislation that allows the creation of TBD allows the governing board of TBD to adopt a vehicle license fee up to $20. The funds generated through the district will be used to provide funding for transportation improvements that preserve, maintain and construct the transportation infrastructure of the City of Everett.

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL GENERAL FUND FOR YEAR ENDED DECEMBER 31, 2013

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET - POSITIVE (NEGATIVE)
REVENUES				
Taxes	72,488,592	$ 72,759,317	$ 73,696,450	$ 937,133
Licenses and permits	1,283,443	1,283,443	1,322,961	39,518
Intergovernmental revenues	2,571,908	3,916,329	3,203,591	(712,738)
Charges for services	7,350,276	7,350,276	7,576,642	226,366
Fines and forfeits	2,038,950	2,038,950	1,749,595	(289,355)
Other revenues	738,949	779,285	(251,519)	(1,030,804)
TOTAL REVENUES	**86,472,118**	**88,127,600**	**87,297,720**	**(829,880)**
EXPENDITURES				
Current:				
General government services	18,049,769	25,884,149	21,973,500	3,910,649
Security of persons and property	59,254,632	59,247,683	56,727,167	2,520,516
Physical environment	228,639	228,639	228,636	3
Transportation	4,032,655	3,757,138	3,712,324	44,814
Economic environment	5,813,783	6,037,747	5,210,100	827,647
Mental and physical health	912,087	923,087	864,116	58,971
Culture and recreation	704,486	704,486	661,987	42,499
Capital outlay	50,701	723,883	603,457	120,426
TOTAL EXPENDITURES	**89,046,752**	**97,506,812**	**89,981,287**	**7,525,525**
Excess (deficiency) of revenues over (under) expenditures	(2,574,634)	(9,379,212)	(2,683,567)	6,695,645
OTHER FINANCING SOURCES (USES)				
Transfers in	4,463,336	4,498,820	4,259,171	(239,649)
Transfers out	(1,092,092)	(1,092,092)	(2,913,689)	(1,821,597)
Total other financing sources (uses)	**3,371,244**	**3,406,728**	**1,345,482**	**(2,061,246)**
Net change in fund balances	796,610	(5,972,484)	(1,338,085)	4,634,399
Fund balances - beginning	21,603,390	28,372,484	28,668,018	295,534
FUND BALANCES - ENDING	**$ 22,400,000**	**$ 22,400,000**	**$ 27,329,933**	**$ 4,929,933**

SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
CAPITAL IMPROVEMENT RESERVE FUND
FOR YEAR ENDED DECEMBER 31, 2013

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET - POSITIVE (NEGATIVE)
REVENUES				
Taxes	$ 900,000	$ 900,000	$ 1,227,466	$ 327,466
Charges for services	55,000	55,000	-	(55,000)
Other revenues	421,119	421,119	(297,173)	(718,292)
TOTAL REVENUES	**1,376,119**	**1,376,119**	**930,293**	**(445,826)**
EXPENDITURES				
Current:				
Culture and recreation	500,000	500,000	500,000	-
TOTAL EXPENDITURES	**500,000**	**500,000**	**500,000**	**-**
Excess (deficiency) of revenues over (under) expenditures	876,119	876,119	430,293	(445,826)
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	385,477	385,477
Transfers out	(2,269,050)	(4,296,124)	(2,694,598)	1,601,526
Total other financing sources (uses)	**(2,269,050)**	**(4,296,124)**	**(2,309,121)**	**1,987,003**
Net change in fund balances	(1,392,931)	(3,420,005)	(1,878,828)	1,541,177
Fund balances - beginning	15,631,204	17,658,278	18,382,528	724,250
FUND BALANCES - ENDING	**$ 14,238,273**	**$ 14,238,273**	**$ 16,503,700**	**$ 2,265,427**

Notes to Required Supplementary Information
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual

Note A – Explanation of Difference between Budgetary Revenues and Expenditures and GAAP Revenues and Expenditures

Revenues	
Actual Amount	$ 87,297,720
Differences - Budget to GAAP The funds no longer meeting the definition of special revenue funds per GASB Statement No. 54	
Parks & Recreation Fund	9,310,011
Library Fund	4,810,906
Municipal Arts Fund	805,280
Conference Center Fund	112,492
General Gov't Special Proj Fund	(5,770)
Motor Vehicle Equip Repl Fund	(243,434)
Downtown Improvement Fund	(26)
Cum Reserve Real Prop Acq Fund	(34,501)
Property Management Fund	943,587
Senior Center Reserve Fund	48,213
Contingency Reserve Fund	(228,170)
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balance - general fund	$ 102,816,308
Expenditures	
Actual Amount	$ 89,981,287
Differences - Budget to GAAP The funds no longer meeting the definition of special revenue funds per GASB Statement No. 54	
Parks & Recreation Fund	9,321,614
Library Fund	4,858,613
Municipal Arts Fund	1,003,041
Conference Center Fund	64,893
General Gov't Special Proj Fund	9,849
Motor Vehicle Equip Repl Fund	1,309,329
Downtown Improvement Fund	1,292
Cum Reserve Real Prop Acq Fund	72,384
Property Management Fund	2,256,020
Senior Center Reserve Fund	61,856
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balance - general fund	$ 108,940,178

PENSION FUNDS

Schedules of Employer Contributions

	FIRE PENSION FUND		POLICE PENSION FUND	
Year	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed
2013	$ (178,998)	*	$ 177,059	0%
2012	(131,810)	*	131,541	0%
2011	(125,850)	*	125,278	0%
2010	105,226	143%	111,447	0%
2009	100,460	202%	106,140	61%
2008	(48,068)	*	35,902	0%

* No percentage contributed is presented in years where the Annual Required Contribution (ARC) was negative. Actual contributions made for the Fire Pension Fund included $155,946 in 2013, $147,478 in 2012, $154,877 in 2011, and $149,368 in 2008.

Schedules of Funding Progress

As discussed in Note 7, the actuarial cost method used in the valuation of the pension plans is the Entry Age Cost Method.

FIRE PENSION FUND

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b - a) / c)
12/31/2012	$ 10,424,000	$ 6,930,000	$ (3,494,000)	150.40%	$ 622,642	-561.16%
12/31/2010	10,522,000	7,945,000	(2,577,000)	132.44%	891,440	-289.08%
12/31/2008	11,491,000	11,452,000	(39,000)	100.34%	1,019,299	-3.83%

POLICE PENSION FUND

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b - a) / c)
12/31/2012	$ 2,964,000	$ 6,074,000	$ 3,110,000	48.80%	$ 362,732	857.38%
12/31/2010	3,717,000	6,137,000	2,420,000	60.57%	767,633	315.25%
12/31/2008	4,758,000	7,011,000	2,253,000	67.86%	880,684	255.82%

OTHER POST EMPLOYMENT BENEFIT FUNDS

Schedule of Contributions from the Employer and Other Contributing Entities

	FIRE HEALTHCARE FUND		POLICE HEALTHCARE FUND	
Year	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed
2013	$ 1,185,523	4%	$ 1,075,155	5%
2012	1,346,074	4%	1,093,904	5%
2011	1,285,206	4%	1,041,812	5%
2010	1,070,125	4%	1,012,705	4%
2009	1,021,664	37%	964,481	42%
2008	1,463,568	2%	1,238,697	3%

Schedules of Funding Progress

The actuarial cost method used in the valuation of the OPEB plans is also the Entry Age Cost Method.

FIRE HEALTHCARE FUND

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b - a) / c)
12/31/2012	$ 21,357,000	$ 44,494,000	$ 23,137,000	48.00%	$ 622,642	3715.94%
12/31/2010	21,855,000	48,265,000	26,410,000	45.28%	891,440	2962.62%
12/31/2008	23,159,000	48,250,000	25,091,000	48.00%	1,019,299	2461.59%

POLICE HEALTHCARE FUND

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b - a) / c)
12/31/2012	$ 13,715,000	$ 32,602,000	$ 18,887,000	42.10%	$ 362,732	5206.87%
12/31/2010	14,592,000	34,951,000	20,359,000	41.75%	767,633	2652.18%
12/31/2008	15,633,000	36,365,000	20,732,000	42.99%	880,684	2354.08%

MCAG NO. 0664

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended December 31, 2013

SCHEDULE 16
(Page 1 of 3)

Federal Agency	Pass-Through Agency	Federal Prog Name	CFDA Number	Other ID Number	From Pass-Throug Award	From Direct Award	Total	
Dept of HUD		Community Development Block Grants/Entitlement Grants	14.218			141,119		
Dept of HUD		Community Development Block Grants/Entitlement Grants	14.218	Program Income		521,471		Note 3a
Dept of HUD		Community Development Block Grants/Entitlement Grants	14.218			768,690		
Dept of HUD		Community Development Block Grants/Entitlement Grants	14.218	Program Income		451		Note 3a
				Sub-Total	-	1,431,731	1,431,731	
Dept of HUD	SnoCo Human Services	Home Investment Partnership Program	14.239		181,666			
Dept of HUD	SnoCo Human Services	Home Investment Partnership Program	14.239	Program Income	264,838			Note 3a
Dept of HUD	SnoCo Human Services	Home Investment Partnership Program	14.239		6,204			
				Sub-Total	452,708	-	452,708	
Dept of Justice		Joint Law Enforcement Operations (JLEO)	16.111	FY13 JLEO	-	1,075	1,075	
Dept of Justice	Sno Co Sheriff	Edward Byrne Memorial Formula Grant Program	16.579	F97-374-017	21,754	-	21,754	
Dept of Justice	WA Dept of Commerce	ARRA - Violence Against Women Formula Grants	16.588	F11-31103-060	30,079	-	30,079	
Dept of Justice		Bullet Proof Vest Partnership Program	16.607		-	8,190	8,190	
Dept of Justice		Edward Byrne Memorial Justice Assistance Grant Program	16.738	2010-DJ-BX-0201		11,004		
Dept of Justice		Edward Byrne Memorial Justice Assistance Grant Program	16.738	Program Income		74		Note 3b
Dept of Justice		Edward Byrne Memorial Justice Assistance Grant Program	16.738	2011-DJ-BX-2383		1,097		
Dept of Justice		Edward Byrne Memorial Justice Assistance Grant Program	16.738	Program Income		91		Note 3b
Dept of Justice		Edward Byrne Memorial Justice Assistance Grant Program	16.738	2012-DJ-BX-0342		27,034		
Dept of Justice		Edward Byrne Memorial Justice Assistance Grant Program	16.738	Program Income		669		Note 3b
Dept of Justice		Edward Byrne Memorial Justice Assistance Grant Program	16.738	2013-DJ-BX-0208		2,138		
Dept of Justice		Edward Byrne Memorial Justice Assistance Grant Program	16.738	Program Income		214		Note 3b
				Sub-Total	-	42,321	42,321	
Dept of Justice		ARRA - Edward Byrne Memorial JAG Pgm/Grants to Units of Local Govt	16.804	2009-SB-B9-0819		69,491		
Dept of Justice		ARRA - Edward Byrne Memorial JAG Pgm/Grants to Units of Local Govt	16.804	Program Income		230		Note 3b
				Sub-Total	-	69,721	69,721	
US DOT FHWA	WA DOT	Highway Planning and Construction	20.205	East Everett Ped Walkway	238,434			
US DOT FHWA	WA DOT	Highway Planning and Construction	20.205	Henry M Jackson Ped Bicycle Bridge & Trail	59,189			
US DOT FHWA	WA DOT	Highway Planning and Construction	20.205	112th Street Corridor Completion	8,757			
US DOT FHWA	WA DOT	Highway Planning and Construction	20.205	Bond St Railroad Crossing	1,052,319			
US DOT FHWA	WA DOT	Highway Planning and Construction	20.205	City Ctr Safety Improvement, 23rd to 47th St	379,589			
US DOT FHWA	WA DOT	Highway Planning and Construction	20.205	Broadway Bridge Replacement Project	346,538			
US DOT FHWA	WA DOT	Highway Planning and Construction	20.205	41st St to W Marine View Dr Freight Corridor	136,561			
US DOT FHWA	WA DOT	Highway Planning and Construction	20.205	City Ctr Safety Improvement	5,262			
US DOT FHWA	WA DOT	Highway Planning and Construction	20.205	Pacific Ave & Broadway Safety	4,233			
US DOT FHWA	WA DOT	Highway Planning and Construction	20.205	Hawthorne Elementary Safe Routes	5,563			
US DOT FHWA	WA DOT	Highway Planning and Construction	20.205	2013 Everett Overlay Project	670,730			
US DOT FHWA	WA DOT	Highway Planning and Construction	20.205	36th St/BNSF Rail Line	69,339			
				Sub-Total	2,976,514	-	2,976,514	
US DOT FTA		Federal Transit Capital Investment Grant	20.500			113,267		
US DOT FTA		Federal Transit Capital Investment Grant	20.500			14,144		
US DOT FTA		Federal Transit Capital Investment Grant	20.500			588,000		
US DOT FTA		Federal Transit Capital Investment Grant	20.500			712,500		
				Sub-Total	-	1,427,911	1,427,911	

The accompanying notes to the Schedule of Expenditures of Federal Awards are an integral part of this statement

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended December 31, 2013

Federal Agency	Pass-Through Agency	Federal Prog Name	CFDA Number	Other ID Number	From Pass-Throug Award	From Direct Award	Total	
US DOT FTA		Federal Transit-Formula Grants	20.507			901		
US DOT FTA		Federal Transit-Formula Grants	20.507			221,099		
US DOT FTA		Federal Transit-Formula Grants	20.507			1,201,148		
US DOT FTA		Federal Transit-Formula Grants	20.507			483,334		
US DOT FTA		Federal Transit-Formula Grants	20.507			507,145		
US DOT FTA		Federal Transit-Formula Grants	20.507			90,205		
US DOT FTA		Federal Transit-Formula Grants	20.507			792,000		
US DOT FTA		Federal Transit-Formula Grants	20.507			450,636		
US DOT FTA		Federal Transit-Formula Grants	20.507	Program Income		52,562		Note 3c
				Sub-Total	-	3,799,030	3,799,030	
US DOT	WA Traffic Safety Comm	State and Community Highway Safety	20.600		15,306			
US DOT	WA Traffic Safety Comm	State and Community Highway Safety	20.600		2,106			
US DOT	WA Assoc Sheriffs & Police Chfs	State and Community Highway Safety	20.600		2,441			
				Sub-Total	19,853	-	19,853	
US DOT	WA Traffic Safety Comm	Alcohol Impaired Driving Countermeasures Incentive Grants	20.601		1,588	-	1,588	
Inst of Museum & Lib	WA Library	Grants to States	45.310	13-CE-020	750			
Inst of Museum & Lib	WA Library	Grants to States	45.310	13-CE-040	3,000			
				Sub-Total	3,750	-	3,750	
Dept of Energy		ARRA - Energy Efficiency and Conservation Block Grant Prg (EECBG)	81.128		-	3,452	3,452	
Homeland Security	WA Parks & Rec Comm	Boating Safety Financial Assistance	97.012		37,561	-	37,561	
Homeland Security	WA Military Department	Emergency Management Performance Grants (EMPG)	97.042	EMPG E12-306	59,994			
Homeland Security	WA Military Department	Emergency Management Performance Grants (EMPG)	97.042	EMPG E14-135	7,187			
				Sub-Total	67,181	-	67,181	
Homeland Security	WA Military Department	Pre-Disaster Mitigation	97.047	PDMC E11-135	1,302,582	-	1,302,582	
Homeland Security	City of Seattle	Port Security Grant Program	97.056		38,206			
Homeland Security	City of Seattle	Port Security Grant Program	97.056		63,769			Note 4
Homeland Security	Marine Exchange, Seattle	Port Security Grant Program	97.056		423,749			
					525,724	-	525,724	
Homeland Security	Snohomish County	Homeland Security Grant Program (HSGP & THSGP)	97.067	E11-149	483,404			
Homeland Security	City of Seattle	Homeland Security Grant Program (HSGP & THSGP)	97.067	E12-190	21,111			
Homeland Security	City of Seattle	Homeland Security Grant Program (HSGP & THSGP)	97.067	E12-190	91,284			Note 4
Homeland Security	Snohomish County	Homeland Security Grant Program (HSGP & THSGP)	97.067	E12-186	27,199			
Homeland Security	Snohomish County	Homeland Security Grant Program (HSGP & THSGP)	97.067	E12-203	27,411			
Homeland Security	WA Military Department	Homeland Security Grant Program (HSGP & THSGP)	97.067	E13-165	10,183			
				Sub-Total	660,592	-	660,592	
Homeland Security		CyberTipline	97.076		-	1,130	1,130	
Homeland Security	WA Military Department	Buffer Zone Protection Program (BZPP)	97.078	BZPP E12-215	119,500	-	119,500	
					6,219,386	**6,784,561**	**13,003,947**	

The accompanying notes to the Schedule of Expenditures of Federal Awards are an integral part of this statement

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE 1 - BASIS OF ACCOUNTING

This schedule is prepared on the same basis of accounting as the City's financial statements. The City uses the full accrual basis of accounting to account for its grants. Under the full accrual basis, revenues are recognized when earned, if measurable, and expenses are recognized when incurred, if measurable.

NOTE 2 - PROGRAM COSTS

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

NOTE 3 - PROGRAM INCOME

a) The City has a revolving loan program for low-income housing. Repayments to the City are considered program revenues (income) and loans of such funds to eligible recipients are considered expenditures.
b) The City earns investment interest on unexpended Edward Byrne Memorial Grant funds. Interest revenue (program income) for the year is presented in this schedule.
c) The advertising revenues derived from the buses are considered program income.

NOTE 4 – NONCASH AWARDS- EQUIPMENT

The City received equipment and supplies that were purchased with federal Homeland Security funds by the City of Seattle. The amount reported on the schedule is the fair value of the property on the date it was received by the City and priced by the City of Seattle

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	**Troy Kelley**
Chief of Staff	**Doug Cochran**
Director of Performance and State Audit	**Chuck Pfeil, CPA**
Director of Local Audit	**Kelly Collins, CPA**
Deputy Director of State Audit	**Jan M. Jutte, CPA, CGFM**
Deputy Director of Local Audit	**Sadie Armijo**
Deputy Director of Local Audit	**Mark Rapozo, CPA**
Deputy Director of Performance Audit	**Lou Adams, CPA**
Deputy Director of Quality Assurance	**Barb Hinton**
Deputy Director of Communications	**Thomas Shapley**
Public Records Officer	**Mary Leider**
Main number	**(360) 902-0370**
Toll-free Citizen Hotline	**(866) 902-3900**

Website	**www.sao.wa.gov**
Subscription Service	**portal.sao.wa.gov/saoportal/Login.aspx**

Corrective Action Plan for Findings Reported Under OMB Circular A-133

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

This schedule presents the corrective action planned by the auditee for findings reported in this report in accordance with OMB Circular A-133. The information in this schedule is the representation of the City of Everett. The State Auditor's Office has reviewed the information as presented by the City of Everett.

Finding ref number: 1	**Finding caption:** The City's internal controls over accounting and financial statement preparation were inadequate to ensure accurate reporting.
Name, address, and telephone of auditee contact person: Andy Lee 2930 Wetmore, Suite 9H Everett, WA 98201 (425) 257-8604	
Corrective action the auditee plans to take in response to the finding: *The City received $13,003,947 in federal assistance from 22 federal programs in 2013. Management concurs that $63,769 in equipment received through the Port Security Grant Program was omitted from the Schedule of Expenditures of Federal Awards (SEFA). The omitted amount is less than 0.5% of the total federal assistance reported. Accounting staff has revised its grant tracking process to ensure that all grants are captured and reported on the SEFA.* *Management also concurs that $13.2 million in long-term notes receivable to the Community Housing Improvement Program were incorrectly classified as "non-spendable, which resulted in the City's unrestricted fund balance being over-reported and its restricted fund balance being under-reported. Additional training on GASB 54 will be provided to ensure that fund balances are correctly classified and reported.*	
Anticipated date to complete the corrective action: Immediately	