Washington State Auditor's Office

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Financial Statements and Federal Single Audit Report

City of Everett

Snohomish County

For the period January 1, 2014 through December 31, 2014

Published September 8, 2015

Report No. 1014655

Washington State Auditor's Office

September 8, 2015

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,

JAN M. JUTTE, CPA, CGFM

ACTING STATE AUDITOR

OLYMPIA, WA

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FEDERAL SUMMARY

City of Everett
Snohomish County
January 1, 2014 through December 31, 2014

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, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information.

Internal Control Over Financial Reporting:

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

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

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

Federal Awards

Internal Control Over Major Programs:

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

- *Material Weaknesses:* We identified 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 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
14.218	CDBG - Entitlement Grants Cluster - Community Development Block Grants/Entitlement Grants
20.205	Highway Planning and Construction Cluster - Highway Planning and Construction

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by OMB Circular A-133, was $300,000.

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

SCHEDULE OF FEDERAL AUDIT FINDINGS AND QUESTIONED COSTS

City of Everett
Snohomish County
January 1, 2014 through December 31, 2014

2014-001 The City's internal controls were not adequate to ensure compliance with Federal Funding Accountability and Transparency Act reporting requirements.

CFDA Number and Title:	14.218 Community Development Block Grants/Entitlement Grants
Federal Grantor Name:	Department of Housing and Urban Development (HUD)
Federal Award/Contract Number:	B-13-MC-53-0004, B-14-MC-53-0004
Pass-through Entity Name:	NA
Pass-through Award/Contract Number:	NA
Questioned Cost Amount:	$0

Background

The City reported federal expenditures totaling $1,287,372 provided by the Department of Housing and Urban Development (HUD) for the Community Development Block Grants/Entitlement Grants (CDBG) in 2014. Grant funds must be used to benefit low and moderate-income persons, prevent or eliminate slums or blight, or meet community development needs having a particular urgency.

The City awarded funds to 21 non-profit organizations totaling $1,569,517 to assist in meeting these objectives. The non-profit organizations did not fully expend their awards during the year.

Description of Condition

The Federal Funding Accountability and Transparency Act of 2006 (FFATA) requires grantees to report subawards for amounts of $25,000 or more. The grantee must report each subaward by the end of the month following the month in which it was granted.

Our audit focused on the City's 2013 and 2014 grant award as the program's fiscal year is July 1-June 30. We found the City did not have sufficient internal controls in place to ensure the fiscal year 2013 and 2014 FFATA reports were submitted before the deadline for the five non-profit organizations who received more than $25,000 from the City. The amount spent during our audit period from these five subrecipients totaled $597,100. We consider the control deficiency to be a material weakness.

When our Office discovered the reports had not been submitted, the City started the process to submit the required reports.

Cause of Condition

The City relied on the granting agency to communicate program requirements and did not dedicate the time and resources to research all applicable reporting requirements.

Effect of Condition and Questioned Costs

By not correctly submitting the required FFATA reports, the federal government's ability to ensure transparency and accountability of federal spending is diminished.

Recommendation

We recommend the City ensure:

- Staff responsible for administering federal grants is provided adequate training so they fully understand of federal compliance requirements.
- Required reports are accurately compiled, reviewed and submitted timely.

City's Response

The City concurs with the finding. City staff responsible for administering the program were unaware of that Federal Funding Accountability and Transparency Act (FFATA) reporting requirement. To ensure future compliance, the City developed FFATA data collection instructions, which were distributed to the staff responsible for sub recipient monitoring.

Auditor's Remarks

We appreciate the steps the City has taken to develop and distribute Federal Funding Accountability and Transparency Act (FFATA) data collection instructions to staff responsible for ensuring sub-recipient monitoring requirements are met. We will follow-up on this issue during the next regularly scheduled audit.

Applicable Laws and Regulations

U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Section 300, states in part:

> The auditee shall:
>
> (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.
>
> (c) Comply with laws, regulations, and the provisions of contracts or grant agreements related to each of its Federal programs.

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 935, as follows:

> **.11** For purposes of adapting GAAS to a compliance audit, the following terms have the meanings attributed as follows:
>
>> **Deficiency in 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 on a timely basis. A deficiency in *design* exists when *(a)* a control necessary to meet the control objective is missing, or *(b)* an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in *operation* exists when a properly designed

control does not operate as designed or the person performing the control does not possess the necessary authority or competence to perform the control effectively . . .

Material weakness in internal control over compliance. A deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement will not be prevented, or detected and corrected, on a timely basis. In this section, a reasonable possibility exists when the likelihood of the event is either reasonably possible or probable as defined as follows:

Reasonably possible. The chance of the future event or events occurring is more than remote but less than likely.

Remote. The chance of the future event or events occurring is slight.

Probable. The future event or events are likely to occur . . .

Significant deficiency in internal control over compliance. A deficiency, or a combination of deficiencies, in internal control over compliance that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Title 2, Code of Federal Regulations, APPENDIX A TO PART 170 – AWARD TERM, provides, in part:

I. Reporting Subawards and Executive Compensation.

a. Reporting of first-tier subawards.

1. Applicability. Unless you are exempt as provided in paragraph d. of this award term, you must report each action that obligates $25,000 or more in Federal funds that does not include Recovery funds (as defined in section 1512(a)(2) of the American Recovery and Reinvestment Act of 2009, Pub. L. 111–5) for a subaward to an entity (see definitions in paragraph e. of this award term).

2. Where and when to report.

i. You must report each obligating action described in paragraph a.1 of this award term to ***http://www.fsrs.gov***.

ii. For subaward information, report no later than the end of the month following the month in which the obligation was made. (For example, if the obligation was made on November 7, 2010, the obligation must be reported by no later than December 31, 2010.)

STATUS OF PRIOR AUDIT FINDINGS

City of Everett
Snohomish County
January 1, 2014 through December 31, 2014

This schedule presents the status of 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.

<table>
<tr><td>Audit Period:
1/1/2013 – 12/31/2013</td><td>Report Ref. No:
1012275</td><td colspan="2">Finding Ref. No:
2013-001</td></tr>
<tr><td colspan="4">Finding Caption:
The City's internal controls over accounting and financial statement preparation were inadequate to ensure accurate reporting.</td></tr>
<tr><td colspan="4">Background:
City management is responsible for designing and following internal controls that provide reasonable assurance regarding the reliability of financial reporting. Our audit identified the following deficiencies in internal controls over financial reporting that could affect the City's ability to produce reliable financial statements:
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.</td></tr>
<tr><td colspan="4">Status of Corrective Action: (check one)</td></tr>
<tr><td>☒ Fully Corrected</td><td>☐ Partially Corrected</td><td>☐ No Corrective Action Taken</td><td>☐ Finding is considered no longer valid</td></tr>
<tr><td colspan="4">Corrective Action Taken:
In addition to the Council minute review at year-end, the City developed a tracking process to identify new grants throughout the year to ensure that accountability worksheets are distributed for every grant received, and that no grants are omitted from the financial report.

Per SAO recommendations, the City has increased time and resources in preparing the annual financial statements.</td></tr>
</table>

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, 2014 through December 31, 2014

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, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Everett, Snohomish County, Washington, as of and for the year ended December 31, 2014, 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 26, 2015. As discussed in Note 1 to the financial statements, during the year ended December 31, 2014, the City implemented Governmental Accounting Standards Board Statement No. 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25*.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

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

Jan M Jutte

JAN M. JUTTE, CPA, CGFM
ACTING STATE AUDITOR
OLYMPIA, WA

June 26, 2015

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, 2014 through December 31, 2014

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, 2014. 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, 2014.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying Schedule of Federal Audit Findings and Questioned Costs as Finding 2014-001. Our opinion on each major federal program is not modified with respect to these matters.

City's Response to Finding

The City's response to the noncompliance finding identified in our audit is described in the accompanying Schedule of Federal Audit Findings and Questioned Costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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.

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

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. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Federal Audit Findings and Questioned Costs as Finding 2014-001 to be a material weakness.

City's Response to Finding

The City's response to the noncompliance finding identified in our audit is described in the accompanying Schedule of Federal Audit Findings and Questioned Costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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.

JAN M. JUTTE, CPA, CGFM
ACTING STATE AUDITOR
OLYMPIA, WA

August 7, 2015

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

City of Everett
Snohomish County
January 1, 2014 through December 31, 2014

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, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Everett, Snohomish County, Washington, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed on page 20.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Everett, as of December 31, 2014, 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 2014, the City adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25*. 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 23 through 34, budgetary comparison information on pages 91 through 93, pension trust fund information on pages 94 through 96, and information on postemployment benefits other than pensions on page 97 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 26, 2015 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.

JAN M. JUTTE, CPA, CGFM
ACTING STATE AUDITOR
OLYMPIA, WA

June 26, 2015

FINANCIAL SECTION

City of Everett
Snohomish County
January 1, 2014 through December 31, 2014

REQUIRED SUPPLEMENTARY INFORMATION

BASIC FINANCIAL STATEMENTS

REQUIRED SUPPLEMENTARY INFORMATION

SUPPLEMENTARY AND OTHER INFORMATION

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, 2014. 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.

2014 FINANCIAL HIGHLIGHTS

- At December 31, 2014, the City's net position, the amount by which total assets exceed total liabilities, totaled $868.7 million. Of this amount, $646.3 million, or 74.4%, is invested in capital assets. Of the remaining net position, $174.9 million is unrestricted and may be used to meet the City's ongoing obligations.
- The net position of the governmental activities was $417.5 million, an increase of $13.3 million, or 3.3% over 2013. The growth was due primarily to increases in investment revenues of $7.7 million and general tax revenues of $4.2 million. The change in investment revenues is due mainly to the reduction of the unrealized loss of $2.9 million recorded at December 31, 2013, as the fair value of the investments increased in response to current market conditions and growth in the size of the overall portfolio. The improvement in general tax revenues of $4.2 million reflects a moderate improvement in the local economy.
- Business-type activities reported net position of $451.2 million, which represents an increase of $14.2 million, or 3.3% over 2013. The change was due to an increase in investment revenues of $7.7 million, and the implementation of GASB Statement No. 65, which resulted in the elimination of unamortized debt issuance costs of $1.7 million that were reported in 2013.
- The City implemented Governmental Accounting Standards Board (GASB) Statement No. 67, Financial Reporting for Pension Plans in 2014. The objective of this statement is to improve the usefulness of pension information in financial reports through enhanced note disclosures and schedules of required supplementary information.

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, deferred outflow of resources, liabilities, and deferred inflow of resources, 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.

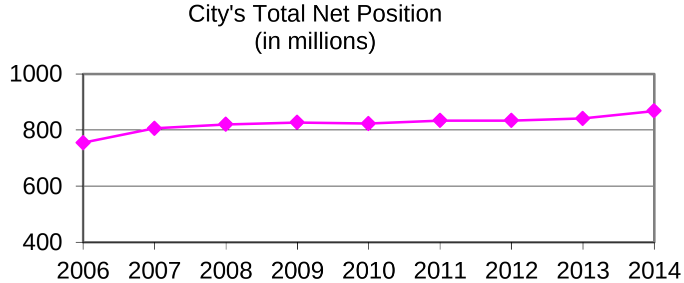
NOTES TO THE FINANCIAL STATEMENTS
The notes provide additional information that is essential to a full understanding of the data provided, and are an integral part of the government-wide and fund financial statements.

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, 2013, was $841.2 million. At December 31, 2014, the total net position was $868.7 million. As the chart below illustrates, the City’s net position has been growing since 2006.



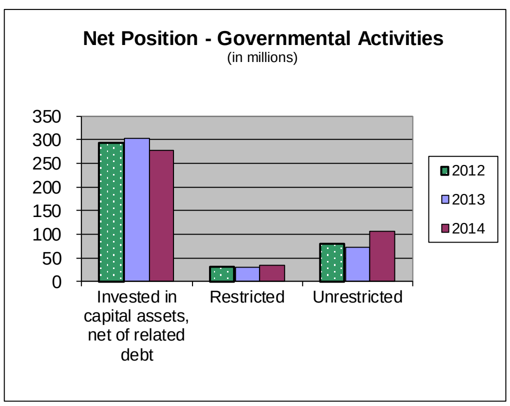
Elements contributing to the change in net position are discussed in the Governmental and Business-Type Activities Analysis sections. The table below presents a condensed version of the Government-Wide Statement of Net Position.

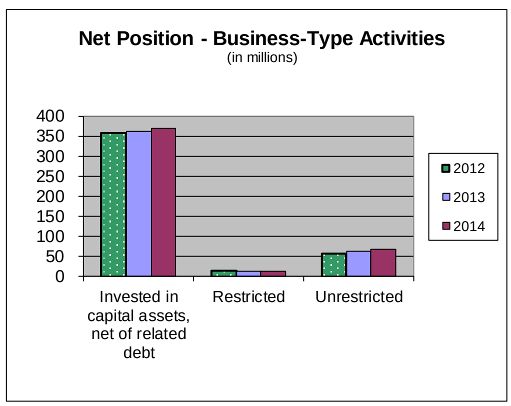
Table 1
City of Everett's Net Position
(in thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2014	2013	2014	2013	2014	2013
Current and other assets	$ 182,226	$ 143,936	$ 89,437	$ 82,045	$ 271,663	$ 225,981
Capital assets, net	326,566	326,477	564,714	559,743	891,280	886,220
Total assets	508,792	470,413	654,151	641,788	1,162,943	1,112,201
Total deferred outlows of resources	-	-	1,713	1,843	1,713	1,843
Long-term liabilities	79,146	53,993	196,489	200,644	275,635	254,637
Other liabilities	12,099	12,204	8,214	6,045	20,313	18,249
Total liabilities	91,245	66,197	204,703	206,689	295,948	272,886
Net position						
Net investment in capital assets	276,688	301,733	369,639	362,486	646,327	664,219
Restricted	34,196	29,467	13,259	12,616	47,455	42,083
Unrestricted (deficit)	106,663	73,015	68,263	61,839	174,926	134,854
Total net position	**$ 417,547**	**$ 404,215**	**$ 451,161**	**$ 436,941**	**$ 868,708**	**$ 841,156**

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, the $9.0 million in assets obtained through the Emergency Medical Services levy and criminal justice grant funding are restricted to public safety use. The 2014 year-end unrestricted net position of $106.7 million in governmental activities and $68.3 million in business-type activities may be used to meet ongoing obligations.





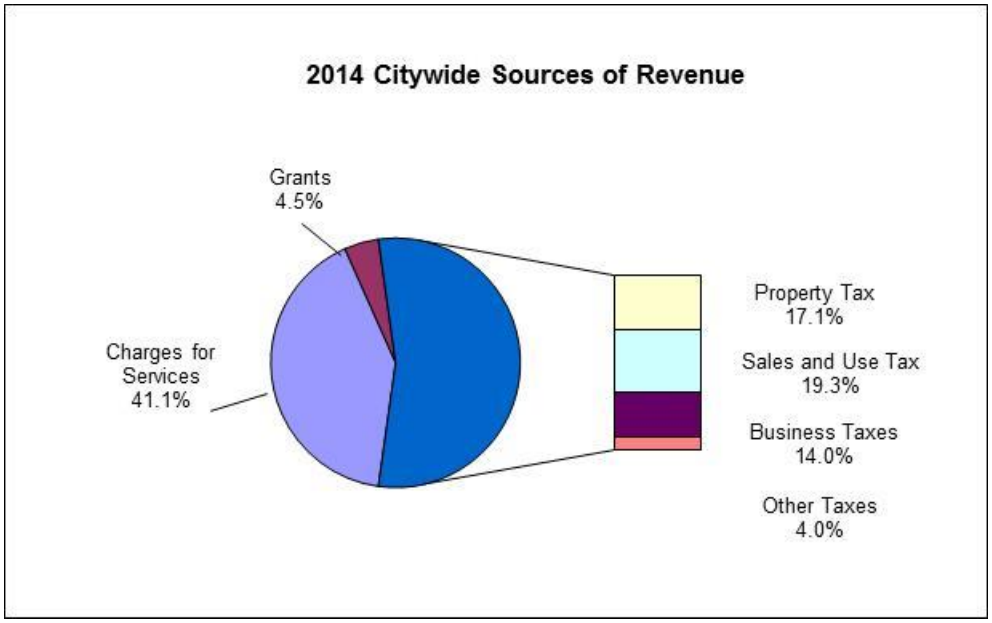
At December 31, 2014, the City reports positive balances in all three categories of net position for both governmental and business-type activities. The same situation held true for the past nine years.

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

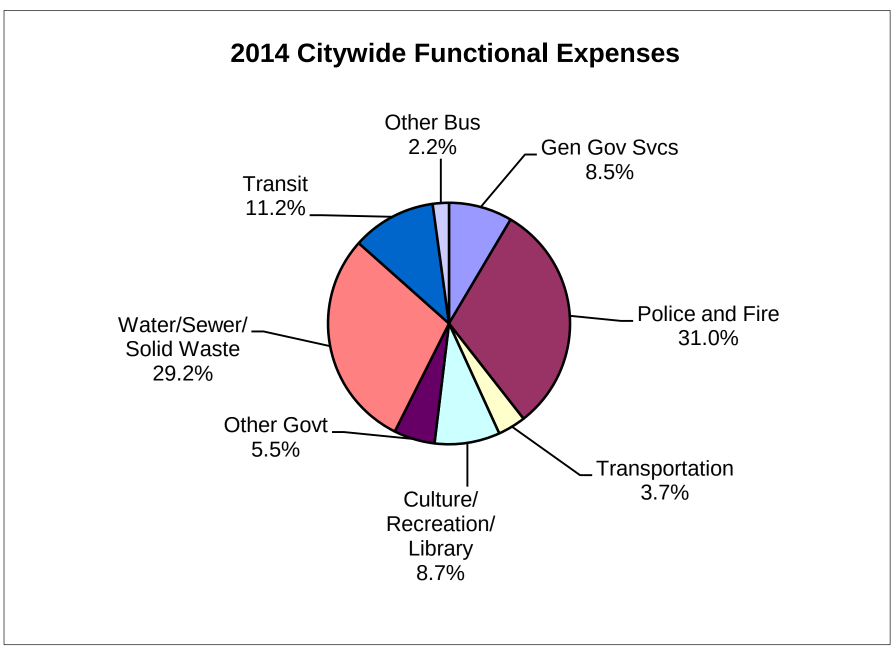
Table 2
City of Everett's Changes in Net Position
(in thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2014	**2013**	**2014**	**2013**	**2014**	**2013**
Revenues						
Program revenues:						
Charges for services	$ 13,394	$ 10,605	$ 80,981	$ 76,718	$ 94,375	$ 87,323
Operating grants and contributions	2,388	3,352	1,303	1,522	3,691	4,874
Capital grants and contributions	2,442	7,332	4,095	9,321	6,537	16,653
General revenues:						
Property taxes	39,155	38,606	-	-	39,155	38,606
Sales taxes	27,026	25,596	17,315	16,380	44,341	41,976
Business taxes	31,981	30,706	97	98	32,078	30,804
Other taxes	9,122	8,157	240	235	9,362	8,392
Interest and investment earnings	4,773	(2,902)	4,580	(3,130)	9,353	(6,032)
TOTAL REVENUES	$ 130,281	$ 121,452	$ 108,611	$ 101,144	$ 238,892	$ 222,596
Program Expenses						
Governmental activities:						
General government services	$ 17,962	$ 19,462	$ -	$ -	$ 17,962	$ 19,462
Police	35,789	36,953	-	-	35,789	36,953
Fire	29,621	29,429	-	-	29,621	29,429
Engineering & construction services	3,757	3,787	-	-	3,757	3,787
Transportation	7,908	6,788	-	-	7,908	6,788
Community services	7,310	7,660	-	-	7,310	7,660
Library	5,384	5,781	-	-	5,384	5,781
Culture and recreation	13,062	13,426	-	-	13,062	13,426
Interest on long-term debt	513	402	-	-	513	402
Business-type activities:						
Water	-	-	28,925	30,448	28,925	30,448
Sewer	-	-	31,986	30,774	31,986	30,774
Solid waste	-	-	788	987	788	987
Parking	-	-	274	287	274	287
Transit	-	-	23,749	22,943	23,749	22,943
Golf	-	-	4,312	4,370	4,312	4,370
TOTAL EXPENSES	$ 121,306	$ 123,688	$ 90,034	$ 89,809	$ 211,340	$ 213,497
Increases (decreases) in net position before transfers	$ 8,975	$ (2,236)	$ 18,577	$ 11,335	$ 27,552	$ 9,099
Transfers	4,357	4,282	(4,357)	(4,282)	-	-
Increase in net position	$ 13,332	$ 2,046	$ 14,220	$ 7,053	$ 27,552	$ 9,099
Net position - beginning	404,215	402,347	436,941	431,632	841,156	833,979
Change in accounting principle	-	(178)	-	(1,744)	-	(1,922)
Net position - ending	$ 417,547	$ 404,215	$ 451,161	$ 436,941	$ 868,708	$ 841,156

As shown in the chart below, taxes made up 54.4% of total revenue received by the City as a whole in 2014. Total tax revenues increased by $4.2 million, mostly due to increases in sales and business taxes from audit activity and improvement in the overall economy. Of the 41.1% in charges for services, 85.8% is from business-type activities.

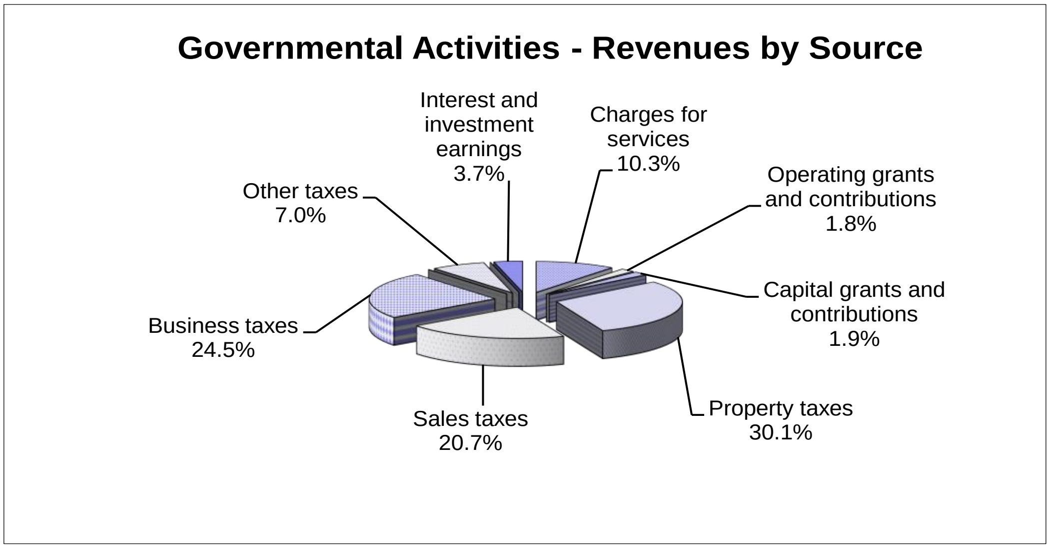


The following chart compares the functional expenses of the City. The largest expense is the combined police and fire functions, making up nearly one third of the City's total expenses. A close second is the combined water/sewer/solid waste functions.

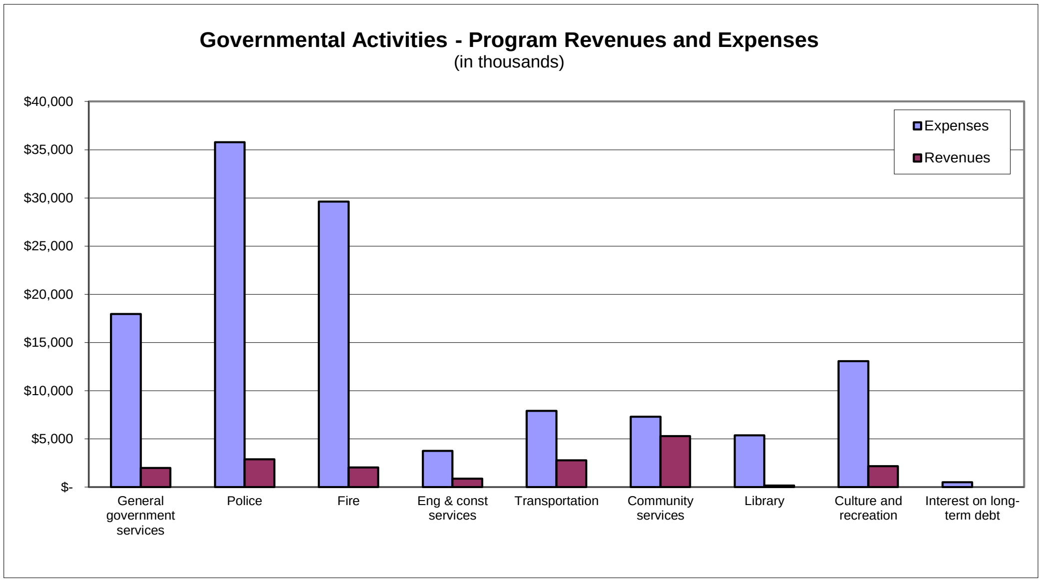


GOVERNMENTAL ACTIVITIES ANALYSIS
As shown in the Statement of Activities, total expenses for all governmental activities in 2014 were $121.3 million. Of this amount, $18.2 million was paid for either by those who directly benefited from the programs or by other governments and organizations that subsidized certain programs with grants and contributions. The net expense (total expenses less program revenues) of $103.1 million was the cost of governmental activity services paid primarily by City taxpayers.

Revenues
Total governmental activity revenues (excluding transfers) increased by $8.8 million. The sales and business tax revenues increased by $2.7 million due to audit recoveries and an improving local economy.

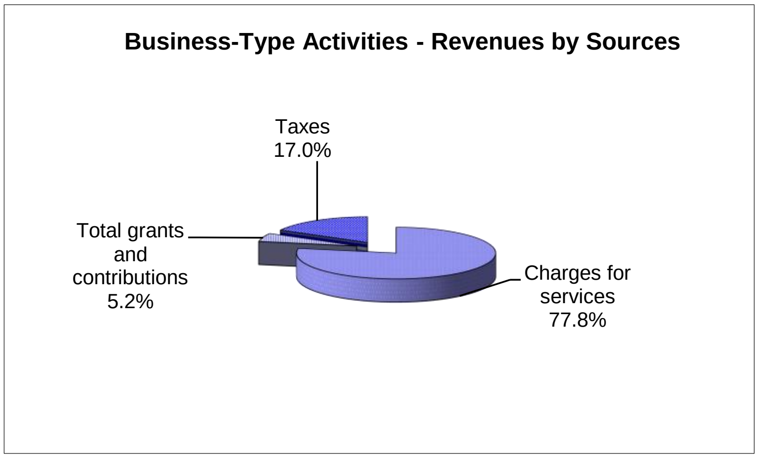


Expenses
Total governmental activity expenses decreased by $2.4 million. The General Government Services expenses decreased by $1.5 million and the Police expenses decreased by $1.2 million. Police and fire activities account for nearly 53.7% of governmental activity expenses. The reduction in expenses was due to higher than normal staff vacancy rates and reduction in grant-related activity.



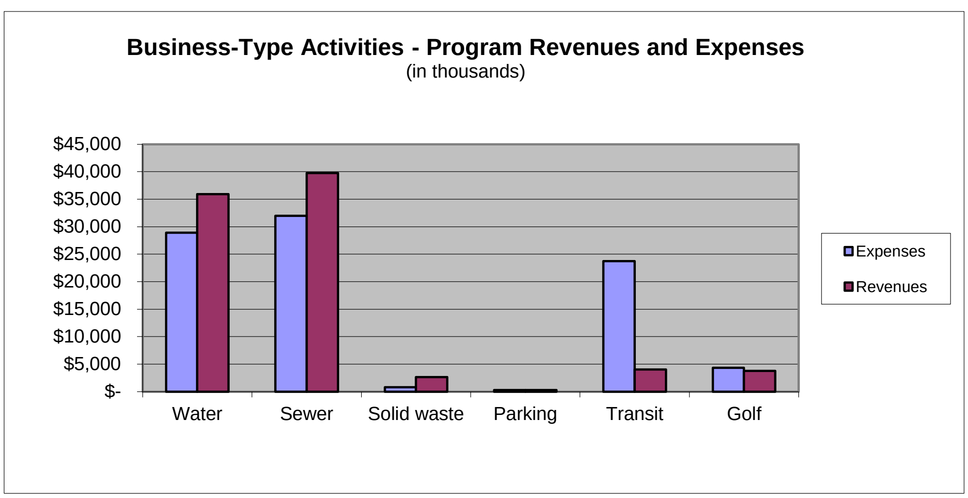
BUSINESS-TYPE ACTIVITIES ANALYSIS
In 2014, program revenues covered $86.4 million of the $90.0 million in business-type activity expenses, leaving a net expense of $3.6 million paid primarily by City taxpayers.

Revenues
Total business-type revenues decreased by $1.2 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 $4.3 million from 2013, due mainly to a rate increase implemented to address the City's capital replacement and improvement programs and finance inflation-based cost increases in operations and maintenance, and offset the loss of a major consumer. This increase was offset by a $5.4 million decrease in grants. 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
The total business-type expenses for 2014 was $90.0 Million, which was fairly consistent with activity in 2013.

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 $144.9. This is a $39.5 million increase from the prior year-end. In 2014, the City issued Limited Tax General Obligation Refunding Bonds, a portion of which was used to refund the Everett Public Facility District's (PFD) 2007 Variable Rate Project Revenue Bonds. Through an interlocal agreement, the PFD is obligated to reimburse the City the amount of principal and interest paid on the portion of the 2014 PFD Refunding Bond debt service attributed to the PFD's original debt. The receivable from the PFD is recorded as due from a component unit in the balance sheet. The remaining $9 million increase is due to improvement in the local economy, which positively impacted tax revenues--sales tax, business & occupation tax, and real estate excise tax, in particular. Interest earnings and building permit revenue also showed significant improvement over 2013 due do changing market conditions and increased activity in the construction industry...

Approximately 52.9% 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 increased by $40.8 million or 149.5%. As mentioned above the increase was mostly due to growth in long term receivables and tax revenues.

Capital Improvement Reserve Fund – The City's other major governmental fund recorded a decrease of $0.5 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 increased by $2.8 million, primarily due to the increases in total other financing sources as a result of bond issuance.

BUSINESS-TYPE FUNDS

Water/Sewer Utility Fund – This fund is the largest business-type fund in the City, accounting for $385.4 million, or 85.1%, of the business-type net position. Of this amount, $307.1 million is invested in capital assets, $13.1 million is classified as restricted (primarily for debt service), and $65.1 million is classified as unrestricted. The fund's 2014 net income, before contributions and transfers, was $13.3 million, which is $9.6 million more than 2013. The growth is due primarily to a $2.5 million Increase in charges for services and a $6.1 million increase in investment revenue, resulting mainly from a change in the fair value of investments.

Transit Fund – This is the City's other major business-type fund. It reported a $20.6 million operating loss in 2014 (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. Total sales tax collections in 2014 totaled $17.6 million.

Other Business-type Funds – The Golf Fund reported net loss of $405,858 compared to net loss of $368,355 in 2013. 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 $1.1 million, or 1.1% greater than the original budget. The majority of the increase ($686,000) was in grant revenue, resulting from re-appropriations from the 2013 budget and new grants awarded in 2014.

The final expenditure budget (including transfers-out) was $6.8 million or 7.6% 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 2013 budget of $1.7 million for contingencies and obligations related to potential tax refunds, land slide repairs, and labor contract settlements. In addition, $3.7 million was re-appropriated to prefund insurance reserves and the overlay program in an effort to begin reducing the projected 2015 budget deficit. The $3.7 million re-appropriation for prefunding 2015 expenditures was possible as a result of department's efforts to reduce expenditures in 2014. Most departments achieved expenditure reductions by holding open vacant positions.

Actual results compared to final budget

General Fund revenue came in over the final amended budget by $4.4 million or 4.7%. The majority of this amount is due to positive performance in sales tax, business taxes, and charges for services.

Expenditures ended the year $8.3 million or 8.6% under budget. $1.7 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 $342,000 of the under budget amount. $6.1 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 2015 budget as the City continues works to close budget gaps.

CAPITAL ASSET AND DEBT ADMINISTRATION

CAPITAL ASSETS

As of December 31, 2014, the City of Everett's investment in capital assets, including construction in progress, for its governmental and business-type activities amounted to $891.3 million. The year-end balance represents a net increase (additions less retirements and depreciation) of $5.1 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	
	2014	2013	2014	2013	2014	2013
Land	$ 60,647	$ 60,556	$ 34,536	$ 33,907	$ 95,183	$ 94,463
Buildings	65,268	66,402	127,921	125,116	193,189	191,518
Improvements other than buildings	13,666	14,807	342,270	349,169	355,936	363,976
Infrastructure	173,318	170,897	1,630	1,726	174,948	172,623
Machinery and equipment	10,312	9,716	13,776	15,122	24,088	24,838
Intangibles	315	353	10,151	10,405	10,466	10,758
Construction in progress	3,040	3,746	34,429	24,299	37,469	28,045
	$ 326,566	$ 326,477	$ 564,713	$ 559,744	$ 891,279	$ 886,221

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

- 2014 overlay program..$ 3.4
- East Everett Pedestrian Walkway Project...1.1
- Horizon Elementary School Walk Route Safety Project.......................0.6

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

- WPCF Expansion, Phase C..$ 9.9
- Reservoir #6 Roof Replacement...2.8
- Sewer Replacement "L"..1.1
- Water Main Replacement "N"..0.9
- 5 Line Replacement at Pilchuck River 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, 2014, was $231.7 million. Of this amount, $53.3 million is bonded debt backed by the full faith and credit of the City, $143.0 million is bonded debt secured solely by water and sewer user fees, and $35.5 million is in Public Works Trust Fund and State Revolving Fund loans.

The City's total debt outstanding increased by a net amount (new issues less principal payments and refundings) of $21.8 million from the prior year end. The major debt transactions that contributed to this change are detailed below.

- The City issued $35.9 million in Limited Tax General Obligation Refunding Bonds in 2014. $8.2 million was used to refund 2001 Variable Rate Bonds and $27.4 million was used to refund 2007 Everett Public Facility District Bond.
- The City redeemed $4.9 million of Revenue debt in 2014.

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

	Governmental Activites		Business-Type Activities		Total Activities	
	2014	2013	2014	2013	2014	2013
General obligation bonds	$ 48,260	$ 22,835	$ 5,000	$ 6,000	$ 53,260	$ 28,835
Revenue debt	-	-	142,965	147,880	142,965	147,880
Other long-term debt	773	992	34,691	32,200	35,464	33,192
	$ 49,033	$ 23,827	$ 182,656	$ 186,080	$ 231,689	$ 209,907

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 2015 budget included: a continued modest recovery in retail sales; an increase in utility taxes due to a rate increase from 4% to 6% on electricity, telephone, and natural gas and a new 2% utility tax imposed on garbage and cable services, 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 2015 budget included:

- Overall economic activity is expected to be moderate.
- Population is expected to increase by 1% in 2015.
- The inflation rate (as measured by the June to June Seattle/Urban Consumer Price Index) is expected to remain low. For 2014, it was 2%.
- Interest rates are expected to remain low through 2015, even if the Federal Reserve begins to remove some accommodation from its monetary policy.

Some of the specific steps taken to balance the 2015 budget included: increasing utility tax rates, increasing certain development fees, eliminating 17 staff positions, prepaying some reserve contributions from prior year underexpenditures, and deferrals of projects and equipment replacements..

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 9820

STATEMENT OF NET POSTION
DECEMBER 31, 2014

	Primary Government			Component Unit
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	EVERETT PUBLIC FACILITIES DISTRICT
ASSETS				
Cash and cash equivalents	$ 38,156,799	$ 23,366,647	$ 61,523,446	$ 1,116,693
Deposits with trustees	52,690	169,725	222,415	-
Investments	72,748,994	46,238,717	118,987,711	-
Receivables, net	56,589,632	13,304,823	69,894,455	556,705
Internal balances	8,709,083	(8,709,083)	-	-
Inventories	439,511	1,139,243	1,578,754	-
Prepayments	277,576	-	277,576	328,317
Net pension assets	3,383,363	-	3,383,363	-
Restricted:				
Cash and cash equivalents	-	5,272,414	5,272,414	2,329,333
Investments	-	7,983,878	7,983,878	-
Special assessments	118,149	2,520	120,669	-
Investment in joint venture	1,750,600	669,332	2,419,932	-
Land	60,646,719	34,535,756	95,182,475	257,074
Construction in progress	3,040,206	34,428,659	37,468,865	-
Capital assets, net (Note 6)	262,879,084	495,748,776	758,627,860	39,436,937
TOTAL ASSETS	**$ 508,792,406**	**$ 654,151,407**	**$ 1,162,943,813**	**$ 44,025,059**
DEFERRED OUTFLOWS OF RESOURCES				
Deferred charge on refunding	**$ -**	**$ 1,712,682**	**$ 1,712,682**	**$ -**
COMBINED ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	**$ 508,792,406**	**$ 655,864,089**	**$ 1,164,656,495**	**$ 44,025,059**
LIABILITIES				
Accounts payable and other current liabilities	$ 8,058,163	$ 7,737,993	$ 15,796,156	$ 781,135
Unearned revenues	190,547	475,756	666,303	1,223,165
Non-current liabilities (Note 12):				
Due within one year	11,277,245	10,986,408	22,263,653	1,190,000
Due in more than one year	71,719,511	185,503,125	257,222,636	48,757,932
COMBINED LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	**$ 91,245,466**	**$ 204,703,282**	**$ 295,948,748**	**$ 51,952,232**
NET POSITION				
Net Investment in capital assets	$ 276,688,477	$ 369,639,059	$ 646,327,536	$ (10,253,921)
Restricted for:				
Debt service	755,666	13,202,106	13,957,772	2,329,333
Public safety	9,027,282	-	9,027,282	-
Transportation	4,176,408	-	4,176,408	-
Parks and recreation	2,546,954	-	2,546,954	-
Community development projects	15,007,558	-	15,007,558	-
Tourism	354,032	-	354,032	-
Economy	317,857	-	317,857	-
Government regulation	-	54,186	54,186	-
Special assessments	-	2,520	2,520	-
Claims contingency	2,009,288	-	2,009,288	-
Unrestricted	106,663,418	68,262,936	174,926,354	(2,585)
TOTAL NET POSITION	**$ 417,546,940**	**$ 451,160,807**	**$ 868,707,747**	**$ (7,927,173)**

The accompanying notes are an integral part of this statement.

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2014
(PAGE 1 OF 2)

FUNCTIONS/PROGRAMS	Expenses	PROGRAM REVENUES: Charges for Services	PROGRAM REVENUES: Operating Grants and Contributions	PROGRAM REVENUES: Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government services	$ 17,962,330	$ 1,806,774	$ 133,994	$ 50,230
Police	35,788,822	2,560,454	305,757	21,909
Fire	29,620,688	1,848,449	187,045	144
Engineering & construction services	3,757,024	876,340	-	-
Transportation	7,907,706	625,648	58,089	2,110,215
Community services	7,309,980	3,689,741	1,607,597	-
Library	5,383,869	113,547	46,022	527
Culture and recreation	13,062,126	1,873,454	49,456	258,539
Interest on long-term debt	513,261	-	-	-
Total governmental activities	**121,305,806**	**13,394,407**	**2,387,960**	**2,441,564**
Business-type activities:				
Water	28,924,524	35,591,782	-	307,128
Sewer	31,985,659	36,294,976	141,648	3,337,912
Solid waste	788,668	2,333,877	69,164	238,362
Parking	274,131	281,602	-	-
Transit	23,748,870	2,698,730	1,091,840	211,751
Golf	4,312,427	3,780,524	-	-
Total business-type activities	**90,034,279**	**80,981,491**	**1,302,652**	**4,095,153**
Total primary government	**$ 211,340,085**	**$ 94,375,898**	**$ 3,690,612**	**$ 6,536,717**
Component units:				
Everett Public Facilities District	**$ 10,707,311**	**$ 7,842,176**	**$ 2,347,842**	**$ -**

General revenues:
Property taxes
Sales taxes
Business taxes
Excise taxes
Allocation of state-imposed taxes
Interest and investment earnings

Transfers

Total general revenues and transfers

Change in net position

Net position - beginning

Net position - ending

The accompanying notes are an integral part of this statement.

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2014
(PAGE 2 OF 2)

NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION

Primary Government			Component Unit
Governmental Activities	Business-Type Activities	Total	Everett Public Facilities District
$ (15,971,332)	$ -	$ (15,971,332)	
(32,900,702)	-	(32,900,702)	
(27,585,050)	-	(27,585,050)	
(2,880,684)	-	(2,880,684)	
(5,113,754)	-	(5,113,754)	
(2,012,642)	-	(2,012,642)	
(5,223,773)	-	(5,223,773)	
(10,880,677)	-	(10,880,677)	
(513,261)	-	(513,261)	
(103,081,875)	**-**	**(103,081,875)**	
-	6,974,386	6,974,386	
-	7,788,877	7,788,877	
-	1,852,735	1,852,735	
-	7,471	7,471	
-	(19,746,549)	(19,746,549)	
-	(531,903)	(531,903)	
-	**(3,654,983)**	**(3,654,983)**	
$ (103,081,875)	**$ (3,654,983)**	**$ (106,736,858)**	
			$ (517,293)
39,154,983	-	39,154,983	
27,025,637	17,315,413	44,341,050	
31,980,853	96,429	32,077,282	
5,016,570	-	5,016,570	
4,105,756	239,716	4,345,472	
4,772,730	4,580,025	9,352,755	
4,357,020	(4,357,020)	-	
116,413,549	**17,874,563**	**134,288,112**	
13,331,674	14,219,580	27,551,254	(517,293)
404,215,266	436,941,227	841,156,493	(7,409,879)
$ 417,546,940	**$ 451,160,807**	**$ 868,707,747**	**$ (7,927,172)**

The accompanying notes are an integral part of this statement.

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2014

	GENERAL FUND	CAPITAL IMPROVEMENT RESERVE FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS				
Cash and cash equivalents	$ 17,228,987	$ 5,418,192	$ 8,895,578	$ 31,542,757
Change and imprest funds	48,899	-	-	48,899
Deposits with trustee	52,690	-	-	52,690
Investments	32,904,721	10,344,912	16,964,584	60,214,217
Receivables, net				
Taxes	11,375,395	187,456	187,456	11,750,307
Customer accounts	79,759	45,422	202,282	327,463
Interest	80,952	16,769	17,850	115,571
Due from other funds	104	-	95,927	96,031
Interfund receivable	101,000	-	-	101,000
Due from other governmental units	283,994	-	310,127	594,121
Due from component unit	27,666,893	-	-	27,666,893
Prepayments	10,350	-	-	10,350
Special assessments - non-current	-	-	118,149	118,149
Notes/contracts receivable	1,140,000	-	13,961,997	15,101,997
Advances to other funds	7,134,168	-	-	7,134,168
TOTAL ASSETS	**$ 98,107,912**	**$ 16,012,751**	**$ 40,753,950**	**$ 154,874,613**
LIABILITIES				
Wages payable	$ 4,167,631	$ -	$ 480,318	$ 4,647,949
Accounts payable	1,181,677	-	314,543	1,496,220
Due to other funds	95,927	-	104	96,031
Interfund payable	-	-	101,000	101,000
Due to other governmental units	111,902	-	34	111,936
Custodial accounts	733,401	-	-	733,401
Revenues collected in advance	60,368	-	-	60,368
Other liabilities	139,883	-	615	140,498
Unearned Revenue	-	-	130,179	130,179
TOTAL LIABILITIES	6,490,789	-	1,026,793	7,517,582
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenues-property taxes	2,301,882	-	-	2,301,882
Unavailable revenues-special assessments	-	-	118,149	118,149
Unavailable revenues-other	11,400	-	-	11,400
TOTAL DEFERRED INFLOWS OF RESOURCES	2,313,282	0	118,149	2,431,431
FUND BALANCES				
Nonspendable	35,951,411	-	-	35,951,411
Restricted	-	-	32,185,757	32,185,757
Committed	137,648	-	-	137,648
Assigned	-	16,012,751	7,451,489	23,464,240
Unassigned	53,214,782	-	(28,238)	53,186,544
TOTAL FUND BALANCES	89,303,841	16,012,751	39,609,008	144,925,600
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOUCES AND FUND BALANCES	**$ 98,107,912**	**$ 16,012,751**	**$ 40,753,950**	**$ 154,874,613**

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, 2014

Total Fund Balances reported on the Balance Sheet - Governmental Funds	$	144,925,600
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		324,974,669
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		8,285,319
Unearned revenues reported in the Balance Sheet - Governmental Funds not reported in the government-wide Statement of Net Position		2,431,430
Accrued receivables reported in the government-wide Statement of Net Position not reported in the Balance Sheet - Governmental Funds		2,071,119
Net investment in joint venture reported in the government-wide Statement of Net Position not reported in the Balance Sheet - Governmental Funds		1,750,600
Net pension asset and net OPEB liability reported in the government-wide Statement of Net Position not reported in the Balance Sheet - Governmental Funds		(466,347)
Discount on notes receivable reported in the government-wide Statement of Net Position not reported in the Balance Sheet - Governmental Funds		(1,069,130)
Accrued pollution remediation liability reported in the government-wide Statement of Net Position not reported in the Balance Sheet - Governmental Funds		(5,046,950)
Long-term debt reported in the government-wide Statement of Net Position not reported in the Balance Sheet - Governmental Funds		(60,309,370)
Total Net Position reported on the government-wide Statement of Net Position	$	417,546,940

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, 2014

	GENERAL FUND	CAPITAL IMPROVEMENT RESERVE FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES				
Taxes	$ 90,270,254	$1,722,002	$ 10,217,671	$ 102,209,927
Licenses and permits	1,893,008	-	-	1,893,008
Intergovernmental revenues	2,933,014	-	6,389,308	9,322,322
Charges for services	10,642,346	-	2,373,314	13,015,660
Fines and forfeits	1,932,025	-	9,330	1,941,355
Other revenues	3,880,120	1,100,175	2,036,290	7,016,585
Total revenues	**111,550,767**	**2,822,177**	**21,025,913**	**135,398,857**
EXPENDITURES				
Current:				
General government services	22,897,228	-	384,241	23,281,469
Security of persons and property	55,780,405	-	8,155,516	63,935,921
Physical environment	238	-	-	238
Transportation	3,961,835	-	2,517,529	6,479,364
Economic environment	5,280,562	-	1,140,542	6,421,104
Mental and physical health	957,605	-	-	957,605
Culture and recreation	14,283,415	500,000	370,836	15,154,251
Capital outlay	3,606,775	-	5,101,387	8,708,162
Debt service:				
Principal	-	-	10,659,316	10,659,316
Interest	-	-	549,179	549,179
Total Expenditures	**106,768,063**	**500,000**	**28,878,546**	**136,146,609**
Excess (deficiency) of revenues over (under) expenditures	4,782,704	2,322,177	(7,852,633)	(747,752)
OTHER FINANCING SOURCES (USES)				
Issuance of long-term debt	-	-	27,665,000	27,665,000
Issuance of refunding debt	-	-	8,200,000	8,200,000
Disposition of capital assets	42,865	-	-	42,865
Transfers in	33,496,846	405,746	5,710,482	39,613,074
Transfers out	(1,208,124)	(3,218,872)	(30,893,158)	(35,320,154)
Total other financing sources (uses)	**32,331,587**	**(2,813,126)**	**10,682,324**	**40,200,785**
Net change in fund balances	37,114,291	(490,949)	2,829,691	39,453,033
Fund balances - beginning	52,189,550	16,503,700	36,779,317	105,472,567
FUND BALANCES - ENDING	**$ 89,303,841**	**$ 16,012,751**	**$ 39,609,008**	**$ 144,925,600**

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, 2014

Net change in fund balances for total governmental funds reported on the Statement of Revenues, Expenditures and Changes in Fund Balances	$ 39,453,033
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:	
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.	1,549,237
Fair value of capital assets donated to the City reported in the government-wide statements during the current period.	72,139
Increase (decrease) to non-current unearned revenue on the Balance Sheet - Governmental Funds during the current period.	35,234
Increase (decrease) to notes and interest receivable on the government-wide statements during the current period.	22,774
Increase (decrease) to investment in joint venture reported in the government-wide statements during the current period.	(14,155)
Decrease (increase) to accrued pollution remediation liability in the government-wide statements during the current period.	(38,000)
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.	(52,581)
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.	(174,196)
Increase (decrease) to accrued receivables in the government-wide statements during the current period.	(193,754)
Increase (decrease) to the combined net pension asset and net OPEB liability on the government-wide statements during the current period.	(2,111,598)
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.	(25,216,459)
Change in net position of governmental activities reported on the government-wide Statement of Activities	$ 13,331,674

The accompanying notes are an integral part of this statement.

STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2014

	BUSINESS TYPE ACTIVITIES				GOVERNMENTAL ACTIVITIES -
	WATER & SEWER UTILITY	TRANSIT	OTHER ENTERPRISE FUNDS	TOTAL	INTERNAL SERVICE FUNDS
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	$ 19,599,236	$ 2,573,274	$ 1,194,137	$ 23,366,647	$ 6,565,143
Deposits with Trustee	-	169,725	-	169,725	-
Investments	39,315,247	4,455,370	2,468,100	46,238,717	12,534,777
Bond covenant accounts:					
Restricted cash and cash equivalents	5,119,686	-	98,542	5,218,228	-
Restricted investments	7,983,878	-	-	7,983,878	-
Receivables, net					
Taxes	-	3,306,836	-	3,306,836	-
Customer accounts	7,187,867	50,793	280,734	7,519,394	15,556
Interest	116,055	1,950	5,405	123,410	13,397
Interfund loans	900,200	-	-	900,200	-
Due from other governments	2,104,544	230,938	19,701	2,355,183	2,345
Prepayments	-	-	-	-	267,226
Inventory	1,008,956	-	130,287	1,139,243	439,511
Total Current Assets	83,335,669	10,788,886	4,196,906	98,321,461	19,837,955
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	23,136,323	10,439,811	959,622	34,535,756	-
Construction in progress	27,443,796	24,214	6,960,649	34,428,659	-
Capital assets, net of depreciation (Note 6)	445,695,297	42,533,603	7,519,876	495,748,776	1,591,334
Total Noncurrent Assets	497,001,454	52,997,628	15,440,147	565,439,229	1,591,334
TOTAL ASSETS	**580,337,123**	**63,786,514**	**19,637,053**	**663,760,690**	**21,429,289**
DEFERRED OUTFLOWS OF RESOURCES					
Deferred charge on refunding	1,712,682	-	-	1,712,682	-
TOTAL DEFFERED OUTFLOWS OF RESOURCES	**1,712,682**	**-**	**-**	**1,712,682**	**-**
COMBINED ASSETS AND DEFERRED OUTFLOW OF RESOURCES	**582,049,805**	**63,786,514**	**19,637,053**	**665,473,372**	**21,429,289**
LIABILITIES					
CURRENT LIABILITIES					
Wages and benefits payable	1,863,488	1,018,877	70,515	2,952,880	223,723
Accounts payable	3,062,986	468,866	117,275	3,649,127	627,691
Claims and judgments payable	-	-	-	-	6,803,739
Interest payable	660,512	-	15,208	675,720	-
Taxes payable	4,582	2,728	9,436	16,746	-
Interfund loans payable	-	-	900,200	900,200	-
Due to other governments	1,300,525	394,577	-	1,695,102	-
Unearned revenue	-	274,299	198,937	473,236	-
Current portion of long-term debt	8,732,814	-	1,002,012	9,734,826	-
Other current liabilities	-	-	-	-	102,887
Total Current Liabilities	15,624,907	2,159,347	2,313,583	20,097,837	7,758,040
NONCURRENT LIABILITIES					
Capital Leases Payable	25,232	-	-	25,232	
General obligation bonds payable	-	-	4,008,888	4,008,888	-
Revenue bonds payable	148,640,894	-	-	148,640,894	-
Special assessment bonds payable	2,520	-	-	2,520	-
Advances from other funds	-	-	7,134,168	7,134,168	-
Loans payable	31,764,092	-	-	31,764,092	-
Claims and judgments payable	-	-	-	-	6,883,970
Other long-term liabilities	611,776	131,505	320,738	1,064,019	76,873
Total Noncurrent Liabilities	181,044,514	131,505	11,463,794	192,639,813	6,960,843
TOTAL LIABILITIES	196,669,421	2,290,852	13,777,377	212,737,650	14,718,883
COMBINED LIABILITIES AND DEFERRED INFLOW OF RESOURCES	**196,669,421**	**2,290,852**	**13,777,377**	**212,737,650**	**14,718,883**
NET POSITION					
Net investment in capital assets	307,112,384	52,997,628	9,529,047	369,639,059	1,591,334
Restricted for debt service	13,103,564	-	98,542	13,202,106	-
Restricted for special assessments	2,520	-	-	2,520	-
Restricted for other governments	54,186	-	-	54,186	-
Restricted for claims contingency	-	-	-	-	2,009,288
Unrestricted	65,107,730	8,498,034	(3,767,913)	69,837,851	3,109,784
TOTAL NET POSITION	**$ 385,380,384**	**$ 61,495,662**	**$ 5,859,676**	452,735,722	**$ 6,710,406**
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.				(1,574,915)	
Net position of business-type activities				**$ 451,160,807**	

The accompanying notes are an integral part of this statement

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2014

	BUSINESS-TYPE ACTIVITIES				GOVERNMENTAL ACTIVITIES -
	WATER & SEWER UTILITY	TRANSIT	OTHER ENTERPRISE FUNDS	TOTAL	INTERNAL SERVICE FUNDS
OPERATING REVENUES:					
Admission taxes	$ -	-	$ 96,429	$ 96,429	$ -
Charges for services	70,274,787	1,598,667	6,393,644	78,267,098	33,876,985
Rental revenues	-	979,331	-	979,331	-
Other operating revenues	-	-	-	-	331
Total Operating Revenues	**70,274,787**	**2,577,998**	**6,490,073**	**79,342,858**	**33,877,316**
OPERATING EXPENSES:					
Personnel services	20,913,132	12,789,755	1,130,030	34,832,917	2,758,122
Supplies	4,000,321	1,541,538	721,363	6,263,222	4,414,070
Professional services	4,846,425	1,873,974	1,749,213	8,469,612	14,496,973
Depreciation and amortization	13,387,613	3,144,859	842,590	17,375,062	336,606
Taxes	1,262,726	10,138	-	1,272,864	-
Other operating expenses	11,912,228	3,852,148	590,097	16,354,473	8,551,260
Total Operating Expenses	**56,322,445**	**23,212,412**	**5,033,293**	**84,568,150**	**30,557,031**
Operating Income (Loss)	13,952,342	(20,634,414)	1,456,780	(5,225,292)	3,320,285
NON-OPERATING REVENUES (EXPENSES):					
Sales tax	-	17,555,129	-	17,555,129	-
Intergovernmental revenues	141,648	1,091,840	69,164	1,302,652	-
Interest and investment revenue	3,607,644	292,444	177,495	4,077,583	761,962
Rent	506,568	16,746	-	523,314	-
Other non-operating revenues	237,244	34,288	-	271,532	277,249
Gain (loss) on sale/retirement of assets	1,335,614	4,450	2,359	1,342,423	932
Sale of junk/salvage	10,921	(38)	-	10,883	-
Interest expense	(6,485,003)	-	(341,932)	(6,826,935)	-
Other non-operating expenses	-	(1,425,133)	-	(1,425,133)	-
Total Non-Operating Revenues (Expenses)	**(645,364)**	**17,569,726**	**(92,914)**	**16,831,448**	**1,040,143**
Income (Loss) Before Contributions and Transfers	13,306,978	(3,064,688)	1,363,866	11,606,156	4,360,428
Capital contributions	3,645,041	211,751	238,362	4,095,154	-
Transfers in	-	-	-	-	135,611
Transfers out	(4,165,320)	(191,700)	-	(4,357,020)	(71,511)
CHANGE IN NET POSITION	12,786,699	(3,044,637)	1,602,228	11,344,290	4,424,528
NET POSITION - BEGINNING	372,593,685	64,540,299	4,257,448	441,391,432	2,285,878
NET POSITION - ENDING	**$ 385,380,384**	**$ 61,495,662**	**$ 5,859,676**	**$ 452,735,722**	**$ 6,710,406**

Change in accounting policy

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

Increase in Net Position, per above	$ 11,344,290
The net revenue (expense) of certain activities of internal service funds associated with business-type activities.	2,875,290
Change in Net Position, per Statement of Activities	$ 14,219,580

The accompanying notes are an integral part of this statement.

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2014
(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	$ 69,962,304	$ 2,614,515	$ 6,473,597	$ 79,050,416	$ 7,598,503
Receipts from interfund services provided	729,837	-	-	729,837	26,276,088
Payments to suppliers	(10,242,084)	(1,537,314)	(3,120,092)	(14,899,490)	(20,686,686)
Payments to employees	(20,915,626)	(12,667,965)	(1,114,886)	(34,698,477)	(2,721,253)
Payments for interfund services used	(9,464,651)	(5,793,893)	(220,257)	(15,478,801)	(375,340)
Claims paid	-	-	-	-	(6,657,514)
Other receipts (payments)	217,452	(1,024,828)	-	(807,376)	386,738
NET CASH PROVIDED BY OPERATING ACTIVITIES	**30,287,232**	**(18,409,485)**	**2,018,362**	**13,896,109**	**3,820,536**
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:					
Sales tax received	-	17,341,308	-	17,341,308	-
Receipts from non-capital grants	141,648	1,285,688	74,985	1,502,321	-
Interfund loans received	59,000	-	-	59,000	-
Principal paid on interfund loans	-	-	(185,000)	(185,000)	-
Interest paid on interfund loans	-	-	(137,017)	(137,017)	-
Transfers to other funds	(4,165,320)	(191,700)	-	(4,357,020)	(71,511)
Transfers from other funds	-	-	-	-	135,611
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	**(3,964,672)**	**18,435,296**	**(247,032)**	**14,223,592**	**64,100**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Proceeds from capital debt	4,325,077	-	-	4,325,077	-
Amortization of refunding of debt deferred outflow	130,396	-	-	130,396	-
Principal paid on capital debt	(6,370,566)	-	(1,002,012)	(7,372,578)	-
Interest paid on capital debt	(7,191,285)	-	(207,102)	(7,398,387)	-
Proceeds from interfund loans	-	-	(59,000)	(59,000)	-
Receipts from capital grants	-	345,056	-	345,056	-
Proceeds from sale of capital assets	11,292	4,412	2,359	18,063	932
Proceeds from timber sales	1,338,585	-		1,338,585	-
Capital contributions	2,710,867	-	311,183	3,022,050	-
Acquisition and construction of capital assets	(21,811,576)	(253,666)	(607,716)	(22,672,958)	(581,719)
Payments to joint ventures	33,455	-	-	33,455	-
NET CASH PROVIDED BY CAPITAL FINANCING ACTIVITIES	**(26,823,755)**	**95,802**	**(1,562,288)**	**(28,290,241)**	**(580,787)**
CASH FLOWS FROM INVESTING ACTIVITIES:					
Proceeds from sale of investments	12,595,364	646,786	525,633	13,767,783	2,016,351
Purchase of investments	-	-	(270,599)	(270,599)	(1,588,185)
Investment income	1,314,276	105,638	74,398	1,494,312	277,731
NET CASH PROVIDED BY INVESTING ACTIVITIES	**13,909,640**	**752,424**	**329,432**	**14,991,496**	**705,897**
Net Increase (Decrease) in Cash and Cash Equivalents	13,408,445	874,037	538,474	14,820,956	4,009,746
Cash and Cash Equivalents, January 1	11,364,663	1,868,962	754,205	13,987,830	2,555,397
CASH AND CASH EQUIVALENTS, DECEMBER 31	**$ 24,773,108**	**$ 2,742,999**	**$ 1,292,679**	**$ 28,808,786**	**$ 6,565,143**
Current Cash and Cash Equivalents	$ 19,599,236	$ 2,742,999	$ 1,194,137	$ 23,536,372	$ 6,565,143
Restricted Cash and Cash Equivalents	5,173,872	-	98,542	5,272,414	-
CASH AND CASH EQUIVALENTS, DECEMBER 31	**$ 24,773,108**	**$ 2,742,999**	**$ 1,292,679**	**$ 28,808,786**	**$ 6,565,143**

The accompanying notes are an integral part of this statement.

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2014
(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)	$ 13,952,342	(20,634,414)	$ 1,456,780	$ (5,225,292)	$ 3,320,285
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:					
Depreciation and amortization	13,387,613	3,144,859	842,590	17,375,062	336,606
Other non-operating receipts	743,811	51,034	-	794,845	277,249
Other non-operating disbursements	-	(1,040,190)	-	(1,040,190)	-
Change in Assets and Liabilities:		-			
(Increase) decrease in inventories	(87,011)	-	(3,438)	(90,449)	101,729
(Increase) decrease in receivables	(109,005)	66,490	(19,176)	(61,691)	12,606
(Increase) decrease in prepaid expenses	126,553	57,483	15,297	199,333	97,408
Increase (decrease) in accounts and other payables	2,342,318	(78,190)	(283,011)	1,981,117	(363,398)
Increase (decrease) in compensated absences	(69,389)	41,981	6,620	(20,788)	38,051
Increase (decrease) in other current liabilities	-	(18,538)	2,700	(15,838)	-
TOTAL ADJUSTMENTS	16,334,890	2,224,929	561,582	19,121,401	500,251
NET CASH PROVIDED BY OPERATING ACTIVITIES	**$ 30,287,232**	**$ (18,409,485)**	**$ 2,018,362**	**$ 13,896,109**	**$ 3,820,536**

	WATER & SEWER UTILITY	TRANSIT	OTHER ENTERPRISE FUNDS	TOTAL	INTERNAL SERVICE FUNDS
SCHEDULE OF NON-CASH CAPITAL AND RELATED FINANCING ACTIVITIES:					
Non-Cash Financing, Capital and Investing Activities:					
Capital assets contributed by private developers	$ 360,124	$ -	$ -	$ 360,124	$ -
Increase (decrease) in fair value of investments	2,281,105	(24,765)	102,019	2,358,359	481,466
Capital grants earned, not received	-	5,546	-	5,546	-
TOTAL NON-CASH ACTIVITIES	$ 2,641,229	$ (19,219)	$ 102,019	$ 2,724,029	$ 481,466

The accompanying notes are an integral part of this statement.

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
DECEMBER 31, 2014

	TRUST FUNDS	AGENCY FUNDS
ASSETS		
Cash and cash equivalents	$ 476,644	$ 185,015
Agency Bonds	42,820,311	-
Accounts receivable - net	1,720	12,985
Interest receivable	8,379	-
Due from Other Governmental Units	-	25
TOTAL ASSETS	**43,307,054**	**198,025**
LIABILITIES		
Accounts payable	6,673	25
Due to Other Governmental Units	-	5,000
Other current liabilities	-	193,000
TOTAL LIABILITIES	**6,673**	**198,025**
NET POSITION		
Net Position restricted for pensions	12,569,418	-
Net Position restricted for post employment benefits	30,730,963	-
Total held in trust	**$ 43,300,381**	**$ -**

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, 2014

		TRUST FUNDS
ADDITIONS:		
Contributions		
Employer	$	102,438
State		170,627
Total contributions		273,065
Investment income		
Interest		717,989
Net appreciation (depreciation) in fair value		3,381,616
Net investment income		4,099,605
TOTAL ADDITIONS		**4,372,669**
DEDUCTIONS:		
Benefits		3,633,566
Administrative expense		37,565
TOTAL DEDUCTIONS		**3,671,131**
CHANGE IN NET POSITION		
Pension benefits		(311,284)
Postemployment healthcare benefits		1,012,822
NET POSITION RESTRICTED FOR EMPLOYEES' PENSION BENEFITS		
Employees' pension benefits, January 1		12,880,702
NET POSITION RESTRICTED FOR POSTEMPLOYMENT HEALTHCARE BENEFITS		
Postemployment healthcare benefits, January 1		29,718,141
NET POSITION - ENDING	**$**	**43,300,381**

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 Units – 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 are 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. The CDE’s account balances and transactions are included in the City’s financial statements as a special revenue fund.

Discretely Presented Component Unit – The 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 PFD is included in the City’s reporting entity as a discretely presented component unit because of the financial accountability relationship. The Board of Directors consists of five members, all appointed by the Everett City Council.

In October 2014, the City issued Limited Tax General Obligation (LTGO) Refunding Bonds, a portion of which was used to refund the **2007 Variable Rate Project Revenue Bonds** issued by the PFD. The PFD portion is referred to as the 2014 PFD Refunding Bonds. The City is responsible for the debt service on the entire 2014 LTGO Refunding Bonds. The PFD agrees to reimburse the City the amount of principal and interest paid on the 2014 PFD Refunding Bonds. As of December 31, 2014, the outstanding 2014 PFD Refunding Bonds balance was $27,688,291. As of December 31, 2014, the PFD had outstanding **2007 Fixed Rate Limited Sales Tax and Interlocal Revenue Bond** debt of $21,555,000. Payments for the PFD's 2007 debt are expected to be made from PFD tax revenues and net project revenues. 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, 2014, the City adopted the provisions of GASB Statement No. 67, Financial Reporting for Pension Plans. The objective of this statement is to improve the usefulness of financial reports through enhanced note disclosures and schedules of required supplementary information. The new information is designed to improve the decision-usefulness of reported pension information and to increase the transparency, consistency, and comparability of pension information.

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 sources for this fund include 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. Prepaid items are reported using the consumption method and recorded as an expense or expenditure at the time of consumption.

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	$ 118,149

Restricted assets of business-type activities include the following:

Revenue bond debt service accounts	$ 13,202,106
Escrow required by Snohomish County Health District	54,186
Special assessments receivable	2,520
	$ 13,258,812

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 2014.

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, 2014 was $4.1 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, 2014 were as follows:

Fund Balances	General Fund	Capital Improvement Reserved Fund	Other Governmental Funds	Total Governmental Funds
Nonspendable:				
Long Term Loans	$ 28,806,893	$ -	$ -	$ 28,806,893
Advances to Other Funds	7,134,168	-	-	7,134,168
Prepayments	10,350	-	-	10,350
Restricted for:				
Tourism Advertising	-	-	354,032	354,032
Everett TV Equipments Replacement	-	-	1,678,133	1,678,133
Animal Shelter Operation	-	-	317,857	317,857
Parks Capital Constructions	-	-	868,821	868,821
Streets Capital Constructions	-	-	1,303,231	1,303,231
Capital Projects Debt Services	-	-	755,666	755,666
Policing	-	-	9,027,282	9,027,282
Traffic Improvement Projects	-	-	2,873,177	2,873,177
CHIP Loans	-	-	15,007,558	15,007,558
Committed to:				
1% for Arts Projects	137,648	-	-	137,648
Assigned to :				
Capital Projects	-	5,581,726	-	5,581,726
City Debt Service	-	10,431,025	23,475	10,454,500
Riverfront Capital Project	-	-	10,651	10,651
City Streets Improvements	-	-	3,961,698	3,961,698
Parks & Recreation Maintainance	-	-	592,147	592,147
Animal Shetler Operation	-	-	113,088	113,088
Library Books	-	-	128,012	128,012
Library Misc. Operation	-	-	26,777	26,777
EMS	-	-	1,245,315	1,245,315
Policing	-	-	25,722	25,722
City Roads Safety & Improvements	-	-	755,198	755,198
Facility Construction Projects	-	-	345,679	345,679
Parks Capital Construction	-	-	223,727	223,727
Unassigned:				
	53,214,782	-	(28,238)	53,186,544
Total Fund Balances	$ 89,303,841	$ 16,012,751	$ 39,609,008	$ 144,925,600

At December 31, 2014 the non major governmental funds included a deficit unassigned fund balance of $28,238.
The deficit balance occurred in the Everett CDE LLC Fund - a Special Revenue Fund reflecting a blended component unit.
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	$	461,189,067
Accumulated depreciation		(136,214,398)
Net adjustment to increase total fund balances of governmental funds to arrive at net position of governmental activities.	$	324,974,669
Long-term debt not reported in total governmental funds:		
Debt proceeds	$	(35,865,000)
Bonds payable		(13,167,960)
Compensated absences accrued		(10,344,976)
Unamortized balance of bond premiums		(844,574)
Accrued interest payable		(86,860)
Net adjustment to reduce total fund balances of government funds to arrive at net position of governmental activities	$	(60,309,370)
Internal service funds reported separately with business-type funds:		
Internal service funds - total fund equity	$	6,710,406
Amount allocated to internal balances - business-type activities		1,574,913
Net adjustment to increase total fund balances of governmental funds to arrive at net position of governmental activities.	$	8,285,319

- **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	$	(3,126,667)
Accumulated depreciation of disposed assets		3,074,087
Net adjustment to increase (reduce) net change in fund balances-total governmental funds to arrive at change in net position of governmental activities	$	(52,581)
The amount by which depreciation exceeds capital outlays in the current period:		
Expenditures that are capitalized	$	9,734,934
Current depreciation expense		(9,909,130)
Net adjustment to increase (reduce) net change in fund balance-total governmental funds to arrive at change in net position of governmental activities	$	(174,196)
The net effect of the differences in the treatment of long-term debt and related items:		
Proceeds of long-term debt	$	(35,865,000)
Principal payments on long-term debt		10,659,316
Decrease (increase) in interest payable		(48,747)
Decrease (increase) in compensated absences liability		(32,409)
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	$	(25,216,459)
The net revenue (expense) of certain activities of internal service funds:		
Interest revenue allocated from internal service funds to governmental activities	$	259,520
Net expense allocated from internal service funds to governmental activities		1,225,617
Interfund transfers out		64,100
Net adjustment to reduce net change in fund balances-total governmental funds to arrive at change in net position of governmental activities	$	1,549,237

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 2014.

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, 2014, the following funds reported deficits in fund balance or net position:

> Fund 170 – Everett CDE LLC Fund had a deficit net position of $28,238. Everett CDE LLC Fund is a special revenue fund representing a blended component unit and future revenue is expected to eliminate the deficit.
>
> Fund 440 – Golf Fund had a deficit net position of $3,599,734. To eliminate the deficit, the City continues elements of its business plan to increase revenue and decrease expenses.

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, 2014, 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	2,957,040				2,957,040
FFCB	34,687,568		12,711,034	3,294,614	18,681,920
FHLB	42,062,298	2,013,000		15,745,468	24,303,830
FHLMC	20,053,963		2,975,598	7,219,414	9,858,951
FNMA	24,733,981		3,954,270	8,118,431	12,661,280
Certificate of Deposit:					
Opus Bank CD	3,000,000	3,000,000			
Total Investments	**127,494,850**	**5,013,000**	**19,640,902**	**34,377,927**	**68,463,021**
Deposits:					
State Pool	53,297,369	53,297,369			
Deposit Account - Opus Bank	6,412,161	6,412,161			
Total Deposits	**59,709,531**	**59,709,531**			
TOTAL INVESTMENTS & DEPOSITS	**187,204,381**	**64,722,531**	**19,640,902**	**34,377,927**	**68,463,021**

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 inflows of resources 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 2014, the City levied the following property taxes on an assessed value of $11,511,536,705. 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	$2.931	$	33,741,264
Emergency medical services	0.500		5,755,768
TOTAL CITY LEVY	$3.431	**$**	**39,497,032**

NOTE 6 – CAPITAL ASSETS AND DEPRECIATION

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 01/01/14	ADDITIONS	TRANSFERS	DELETIONS	ENDING BALANCE 12/31/14
Capital assets, not being depreciated or amortized:					
Land	$ 60,555,865	$ -	$ 90,854	$ -	$ 60,646,719
Construction in progress *	3,745,925	3,939,766	(4,636,966)	(8,519)	3,040,206
Total capital assets, not being depreciated or amortized	64,301,790	3,939,766	(4,546,112)	(8,519)	63,686,925
Capital assets, being depreciated or amortized:					
Buildings	99,416,279	-	1,128,500	-	100,544,779
Improvements other than buildings	32,975,630	171,769	-	-	33,147,399
Infrastructure	231,772,591	3,932,250	3,417,612	(1,704,699)	237,417,754
Machinery and equipment	28,656,197	2,285,928	(15,689)	(1,495,497)	29,430,939
Intangibles	885,674	62,058	-	-	947,732
Total capital assets being depreciated or amortized	393,706,371	6,452,005	4,530,423	(3,200,196)	401,488,603
Less accumulated depreciation or amortization for:					
Buildings	(33,014,311)	(2,262,574)	-	-	(35,276,885)
Improvements other than buildings	(18,169,022)	(1,311,763)	-	-	(19,480,785)
Infrastructure	(60,876,058)	(4,928,327)	-	1,704,699	(64,099,686)
Machinery and equipment	(18,940,229)	(1,637,535)	15,689	1,442,668	(19,119,407)
Intangibles	(531,958)	(100,798)	-	-	(632,756)
Total accumulated depreciation and amortization	(131,531,578)	(10,240,997)	15,689	3,147,367	(138,609,519)
Total capital assets being depreciated or amortized, net	262,174,793	(3,788,992)	4,546,112	(52,829)	262,879,084
Governmental activities capital assets, net	$ 326,476,583	$ 150,774	$ -	$ (61,348)	$ 326,566,009

***** The deletion of construction in progress costs of $8,519 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 01/01/14	ADDITIONS	TRANSFERS	DELETIONS	ENDING BALANCE 12/31/14
Capital assets, not being depreciated:					
Land	$ 33,907,088	$ 28,668	$ 600,000	$ -	$ 34,535,756
Construction in progress *	24,299,395	21,209,191	(10,953,373)	(126,554)	34,428,659
Total capital assets, not being depreciated	58,206,483	21,237,859	(10,353,373)	(126,554)	68,964,415
Capital assets, being depreciated					
Buildings	188,931,562	31,277	6,752,805	-	195,715,644
Improvements other than buildings	501,496,793	362,308	3,600,568	-	505,459,669
Infrastructure	1,917,502	-	-	-	1,917,502
Machinery and equipment	38,451,750	842,957	15,689	(664,547)	38,645,849
Intangibles	16,108,353	-	-	-	16,108,353
Total capital assets being depreciated	746,905,960	1,236,542	10,369,062	(664,547)	757,847,017
Less accumulated depreciation for:					
Buildings	(63,815,565)	(3,979,367)	-	-	(67,794,932)
Improvements other than buildings	(152,328,475)	(10,861,087)	-	-	(163,189,562)
Infrastructure	(191,750)	(95,875)	-	-	(287,625)
Machinery and equipment	(23,330,050)	(2,185,053)	(15,689)	661,209	(24,869,583)
Intangibles	(5,702,854)	(253,680)	-	-	(5,956,534)
Total accumulated depreciation	(245,368,694)	(17,375,062)	(15,689)	661,209	(262,098,236)
Total assets being depreciated, net	501,537,266	(16,138,520)	10,353,373	(3,338)	495,748,781
Business-type activities capital assets, net	$ 559,743,749	$ 5,099,339	$ -	$ (129,892)	$ 564,713,196

***** The deletion of construction in progress costs of $126,554 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	$ 593,892
Police	743,644
Fire	783,888
Engineering & construction services	267,634
Transportation	4,463,957
Community services	130,747
Library	814,367
Culture and recreation	2,220,912
Internal service allocated to business-type activities	221,958
Total depreciation - governmental activities	$ 10,240,999
BUSINESS-TYPE ACTIVITIES	
Water	$ 6,594,120
Sewer	6,926,249
Solid waste	274,808
Parking	42,926
Transit	3,204,059
Golf	524,856
Internal service allocated to business-type activities	(221,958)
Total depreciation - business-type activities	$ 17,345,060
Total depreciation - all activities	$ 27,586,059

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.

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, 2013:

Retirees and Beneficiaries Receiving Benefits	85,328
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	31,047
Active Plan Members Vested	150,706
Terminated Plan Members Nonvested	101,191
Total	**368,272**

Funding Policy

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

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

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

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2014, 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
2014	$ 206,515	$ 3,874,903	$ 774,862
2013	$ 196,930	$ 3,428,241	$ 658,656
2012	$ 182,080	$ 3,000,300	$ 578,570

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, 2013:

Retirees and Beneficiaries Receiving Benefits	10,511
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	699
Active Plan Members Vested	16,830
Terminated Plan Members Nonvested	1,600
Total	**29,640**

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 2014, the state contributed $55.6 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, 2014, are as follows:

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

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

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

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

	LEOFF Plan 1	LEOFF Plan 2
2014	$ 547	$ 1,926,923
2013	$ 613	$ 1,824,853
2012	$ 975	$ 1,806,270

Public Safety Employees' Retirement System (PSERS) Plan 2

<u>Plan Description</u>

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 2014, 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, 2013:

Retirees and Beneficiaries Receiving Benefits	43
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	119
Active Plan Members Vested	4,513
Terminated Plan Members Nonvested	1,383
Total	**6,058**

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, 2014, 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 the 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
2014	$ 64,838
2013	$ 57,321
2012	$ 53,155

FIRE PENSION FUND / POLICE PENSION FUND

Plan Description

The City is also the administrator of the City of Everett Fire and Police Pension Fund, 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.

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.

Membership of the Plans consisted of the following as of December 31, 2014:

- 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 2, 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 73 and 40, 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.

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

Investments are reported at fair value, as provided by the custodian. It is the policy of the Pension Board to pursue an investment strategy based on the prudent person standard, which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering probable safety of their capital as well as the probable income to be derived. With the exception of US Treasury, no more than 50% of the total investment portfolio will can be invested in a single security type and no more than 25% can be invested with a single financial institution.

Concentrations
The pension plans investments are mostly held in the following government sponsored enterprise (GSE) issued securities:

	Fire Pension		Police Pension	
Agencies				
FFCB	1,171,756	12%	321,171	14%
FHLB	3,350,024	34%	803,106	34%
FHLMC	3,362,581	34%	702,739	30%
FNMA	2,018,810	20%	501,901	22%
Total Investments	9,903,170	100%	2,328,917	100%

Rate of return
For the year ended December 31, 2014, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 9.76% for the Fire Pension Fund and 9.82% for the Police Pension Fund. The money-weighted rate of return expresses investment performance, net of investment expenses, adjusted for the changing amounts actually invested.

Net Pension Liability

	Fire Pension	Police Pension
Total pension liability	6,636,807	5,919,527
Plan fiduciary net position	(10,065,144)	(2,504,274)
Net pension liability (asset)	(3,428,337)	3,415,253
Plan fiduciary net position as a percentage of the total pension liability	152%	42%

The negative net pension liability is a result of the City overpaying its annual required pension cost.

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of January 1, 2013, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3%
Salary increases	3%
Investment rate of return	5%, net of pension plan investment expense

Mortality rates were based on the RP-2000 mortality tables projected to 2015 with Scale AA.

The actuarial assumptions used in the valuation include:

- Measurement date of December 31, 2012
- Update procedures were used to roll forward the total pension liability to the pension plan's fiscal year-end
- Actuarial value of assets equal to market value
- Closed 30 year amortization period of the unfunded obligation beginning January 1, 2000
- Entry Age Cost Method
- The investment return was determined by using moderate rate that conservatively reflects the returns expected to be achieved by the fund each year.

Discount Rate

The discount rate used to measure the total pension liability was 5%. The projection of cash flows used to determine the discount rate assumed that City's future annual contributions increases at 5% each year. Based on this assumption the pension plan's fiduciary net position is determined to be actuarially sufficient to fully fund the plan's obligations by the end of year 2030.

Sensitivity of the net pension liability to changes in the discount rate

The following presents the net pension liability of the City, calculated using the discount rate of 5%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1% lower (4%) or 1% higher (6%) than the current rate:

City's net pension liability (asset)	1% Decrease (4%)	Current Discount Rate (5%)	1% Increase (6%)
Fire Pension	$ (2,956,332)	$ (3,428,337)	$ (4,073,777)
Police Pension	$ 3,720,037	$ 3,415,253	$ 2,746,463

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 114 firefighter retirees currently receiving benefits. There are 1 active law enforcement plan participants and 82 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 2014, the City received $102,438 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 obligation.

ANNUAL OPEB COST AND NET OPEB OBLIGATION

	FIRE HEALTHCARE FUND	POLICE HEALTHCARE FUND
Annual Required Contribution (ARC)	$ 1,242,997	$ 1,128,913
Interest on Net OPEB Obligation	76,543	3,173
Actuarial Adjustment to ARC	(90,050)	(3,733)
Annual OPEB Cost (expense)	1,229,490	1,128,353
Contributions Made	51,219	51,219
Increase / (Decrease) in OPEB Obligation	1,178,271	1,077,134
Net OPEB Obligation at beginning of year	1,530,850	63,454
Net OPEB Obligation at end of year	$ 2,709,121	$ 1,140,588

The net OPEB asset has been recorded in the City's government-wide Statement of Net Position.

The City's annual OPEB cost (AOC), the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2014 and the two preceding years were as follows:

	FIRE HEALTHCARE FUND		
Year Ending	Cost (AOC)	Percent of AOC Contributed by City	Net OPEB Obligation
December 31, 2014	$ 1,229,490	4.2%	$ 2,709,121
December 31, 2013	1,183,315	4.2%	1,530,850
December 31, 2012	1,348,447	3.7%	397,423

	POLICE HEALTHCARE FUND		
Year Ending	Cost (AOC)	Percent of AOC Contributed by City	Net OPEB Obligation
December 31, 2014	$ 1,128,353	4.5%	$ 1,140,588
December 31, 2013	1,080,529	4.6%	63,455
December 31, 2012	1,099,211	4.5%	(967,185)

Funded Status and Funding Progress

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

As of January 1, 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 January 1, 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 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, 2014

	637a POLICE PENSION FUND	637b POLICE HEALTHCARE FUND	638a FIRE PENSION FUND	638b FIRE HEALTHCARE FUND	TOTAL TRUST FUNDS
ASSETS					
Cash and cash equivalents	$ 173,713	$ 13,727	$ 161,898	$ 127,306	$ 476,644
Investments					
Agency Bonds	2,328,917	11,959,583	9,903,170	18,628,641	42,820,311
Accounts receivable - net	1,645	-	75	-	1,720
Interest receivable	-	-	-	8,379	8,379
TOTAL ASSETS	2,504,275	11,973,310	10,065,143	18,764,326	43,307,054
LIABILITIES					
Accounts payable	$ -	3,337	$ -	3,336	6,673
TOTAL LIABILITIES	-	3,337	-	3,336	6,673
NET POSITION					
Restricted for pension benefits and other purposes	**$ 2,504,275**	**$ 11,969,973**	**$ 10,065,143**	**$ 18,760,990**	**$ 43,300,381**

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

FOR THE YEAR ENDED DECEMBER 31, 2014

	637a POLICE PENSION FUND	637b POLICE HEALTHCARE FUND	638a FIRE PENSION FUND	638b FIRE HEALTHCARE FUND	TOTAL TRUST FUNDS
ADDITIONS:					
Contributions					
Employer	$ -	$ 51,219	$ -	$ 51,219	$ 102,438
State	-	-	170,627	-	170,627
Total contributions	-	51,219	170,627	51,219	273,065
Investment income					
Interest	32,392	211,896	165,305	308,396	717,989
Net appreciation (depreciation) in fair value	254,228	888,659	346,165	1,892,564	3,381,616
Net investment income	286,620	1,100,555	511,470	2,200,960	4,099,605
TOTAL ADDITIONS	**286,620**	**1,151,774**	**682,097**	**2,252,179**	**4,372,670**
DEDUCTIONS:					
Benefits	375,942	900,834	903,309	1,453,481	3,633,566
Administrative expense	125	17,512	625	19,303	37,565
TOTAL DEDUCTIONS	**376,067**	**918,346**	**903,934**	**1,472,784**	**3,671,131**
CHANGE IN NET POSITION					
Pension benefits	(89,447)		(221,837)		(311,284)
Postemployment healthcare benefits		233,427		779,395	1,012,822
NET POSITION RESTRICTED FOR EMPLOYEES' PENSION BENEFITS					
Employees' pension benefits, January 1	2,593,722		10,286,980		12,880,702
NET POSITION RESTRICTED FOR POSTEMPLOYMENT HEALTHCARE BENEFITS					
Postemployment healthcare benefits, January 1		11,736,546		17,981,595	29,718,141
NET POSITION - ENDING	**$ 2,504,275**	**$ 11,969,973**	**$ 10,065,143**	**$ 18,760,990**	**$ 43,300,381**

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.

For the year ending 12/31/2014, the self-insured retention for general liability, auto liability (excluding transit), law enforcement liability, errors and omissions liability and employment practices liability was $1,250,000 per occurrence. Workers' compensation is self-insured, and effective July 1, 2014, subject to a maximum retention of $1,500,000 for police officer, fire fighter, and bus driver classifications per occurrence, and $1,000,000 for all other 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, 2014, the estimated liability totaled $11,678,422, consisting of $7,177,052 for tort liability, $4,395,374 for workers' compensation, and $105,996 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 2013 and 2014 appear as follows:

	BALANCE AT BEGINNING OF YEAR	CLAIMS	CHANGE IN ESTIMATE	PAYMENTS	BALANCE AT END OF YEAR
Tort Liability:					
2014	8,177,179	1,240,349	1,038,963	(3,279,439)	7,177,052
2013	5,840,600	4,529,712	(290,929)	(1,902,204)	8,177,179
Workers' Compensation:					
2014	3,700,423	1,549,046	1,568,109	(2,422,204)	4,395,374
2013	7,773,702	1,691,515	(3,709,320)	(2,055,474)	3,700,423
Unemployment Compensation:					
2014	122,400	138,610	8,057	(163,071)	105,996
2013	150,772	160,062	(126)	(188,308)	122,400

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 $2,009,288 at December 31, 2014. In addition, the liability reserve was $2,009,288 at December 31, 2014, and is 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).

Changes in the fund's claims liability in fiscal years 2013 and 2014 appear as follows:

	BALANCE AT BEGINNING OF YEAR	CLAIMS	CHANGE IN ESTIMATE	PAYMENTS	BALANCE AT END OF YEAR
IBNR Liability:					
2014	1,775,896	10,787,635	233,392	(10,787,635)	2,009,288
2013	1,633,242	10,075,996	142,654	(10,075,996)	1,775,896

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, 2014 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						
12 LTGO and Refunding Bonds - capital	10-04-12	12-01-26	2.00-4.00%	13,935,000	1,540,000	12,395,000
14 Floating Rate LTGO Bonds - capital	11-03-14	12-13-34	Variable	35,865,000	-	35,865,000
Total Governmental Activities				49,800,000	1,540,000	48,260,000
Business Activities						
10 LTGO Bonds - capital	03-26-10	12-01-19	1.00-4.25%	10,500,000	5,500,000	5,000,000
Total Business Activities				10,500,000	5,500,000	5,000,000
TOTAL GENERAL OBLIGATION BONDS				**$ 60,300,000**	**$ 7,040,000**	**$ 53,260,000**

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

YEAR ENDING DECEMBER 31,	GOVERNMENTAL ACTIVITES PRINCIPAL	INTEREST	TOTAL REQUIREMENTS	BUSINESS-TYPE ACTIVITES PRINCIPAL	INTEREST	TOTAL REQUIREMENTS
2015	1,610,000	1,007,191	2,617,191	1,000,000	182,500	1,182,500
2016	2,150,000	969,569	3,119,569	1,000,000	152,500	1,152,500
2017	2,145,000	924,991	3,069,991	1,000,000	120,000	1,120,000
2018	2,240,000	881,449	3,121,449	1,000,000	82,500	1,082,500
2019	2,430,000	834,787	3,264,787	1,000,000	42,500	1,042,500
2020 - 2024	14,120,000	3,046,626	17,166,626	-	-	-
2025 - 2029	11,175,000	1,676,118	12,851,118	-	-	-
2030 - 2034	12,390,000	659,219	13,049,219	-	-	-
TOTAL	**$ 48,260,000**	**$ 9,999,950**	**$ 58,259,950**	**$ 5,000,000**	**$ 580,000**	**$ 5,580,000**

In 2014 the city issued Floating Rate Limited Tax General Obligation Refunding Bonds in the amount of $35,865,000, including $164,999 in issuance costs and $93,863 in underwriter's discount. The rate in effect at 12/31/14 was 0.43%. The entire issue is subject to mandatory redemption on December 1, 2019, at which point the outstanding balance will be refinanced. These bonds were issued to refinance $8,200,000 of the outstanding 2001 Variable Rate Demand LTGO Bonds, which were issued to purchase land for the Everett Events Center, and $27,415,000 of the Everett Public Facilities District's 2007 Variable Rate Demand Bonds, which were issued to construct a portion of the Everett Events Center building. The bonds were refinanced because the existing letters of credit associated with both issues were expiring, and the Bank of New York indicated that it would not be seeking renewals.

Although the financing was undertaken out of necessity because the prior agreements were expiring, rather than to obtain economic gain, the terms of the new debt issue provide the City with a lower cost of debt. Both the former variable rate demand bonds and the new floating rate bonds carry interest at a rate equal to the weekly Securities Industry and Financial Markets Association Municipal Swap Index (SIFMA); however, in addition to the index rate, the original bonds added a total of 0.6% for management and remarketing fees; whereas, the additional rate over the SIFMA index for the new 2014 Floating Rate LTGO Bonds is 0.4%—a savings of 0.2%. Over the five-year term of the 2014 bonds, that difference would represent a savings of approximately $338,000.

The city refinanced the Everett Public Facilities variable rate bonds under its own credit to take advantage of economies of scale and its strong credit rating. In conjunction with the debt issue, the City entered into an interlocal agreement with the Public Facilities District on September 24, 2014, which details each party's rights and obligations relating to this bond issue. According to the agreement, the Everett Public Facilities District will reimburse the city for debt service payments made by the city on the portion of the 2014 bonds that refinanced the District's 2007 Variable Rate Demand Bonds. Ownership of the Everett Events Center reverts to the city of Everett in 2026.

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 $213,459,614. Principal and interest expense for the current year and total customer net revenues were $11,535,650 and $32,751,964 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.

Revenue bonds outstanding at December 31, 2014 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	34,055,000	945,000
09 Water/Sewer Revenue Bonds - capital	12-01-09	12-01-33	2.0-5.0%	40,000,000	6,910,000	33,090,000
11 Water/Sewer Revenue Bonds - capital	03-09-11	12-01-35	2.5-5.0%	51,000,000	1,400,000	49,600,000
13 Water/Sewer Revenue Bonds - capital	03-01-13	12-01-30	3.0-5.0%	62,145,000	2,815,000	59,330,000
TOTAL REVENUE BONDS				**$ 188,145,000**	**$ 45,180,000**	**$ 142,965,000**

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

	BUSINESS-TYPE ACTIVITIES		
YEAR ENDING DECEMBER 31,	**PRINCIPAL**	**INTEREST**	**TOTAL REQUIREMENTS**
2015	5,125,000	6,409,527	11,534,527
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	6,105,000	5,431,952	11,536,952
2020 - 2024	35,390,000	22,300,509	57,690,509
2025 - 2029	45,145,000	13,732,704	58,877,704
2030 - 2034	30,770,000	4,624,468	35,394,468
2035	3,635,000	181,750	3,816,750
TOTAL	**$ 142,965,000**	**$ 70,494,614**	**$ 213,459,614**

Other Long Term Debt

The City has received government loans and other notes to provide for construction of capital projects. 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, 2014, 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						
Public Works Trust Fund Loan - 75th Street	09-23-96	07-01-16	2.00%	930,880	815,427	115,453
Public Works Trust Fund Loan - Riverfront	04-28-99	07-01-18	2.00%	1,000,000	783,282	216,718
Public Works Trust Fund Loan - 112th Street	12-22-02	07-01-22	0.50%	1,000,000	559,211	440,789
Total Governmental Activities				2,930,880	2,157,920	772,960
Business Activities						
PWTFL Water Transmission Line	08-02-95	07-01-15	1.00%	651,183	623,368	27,815
PWTFL Sewer Basement Flooding Reduction	07-01-01	07-01-21	1.00%	1,881,000	1,188,000	693,000
PWTFL Water Transmission Line	07-01-01	07-01-21	1.00%	4,252,792	2,688,380	1,564,412
PWTFL Cross-Town Effluent Pipeline	05-13-03	07-01-23	0.50%	5,490,000	2,882,250	2,607,750
PWTFL Water Transmission Lines #2-3	11-17-03	11-17-23	0.50%	841,671	437,448	404,223
PWTFL Treatment Plant Upgrade	04-25-05	07-01-25	0.50%	9,500,000	3,694,445	5,805,555
SRF Clearwell No. 2	03-03-06	10-01-25	1.50%	4,040,000	1,591,689	2,448,311
SRF Clearwell No. 2	12-21-07	10-01-26	1.50%	4,040,000	1,488,421	2,551,579
SRF Clearwell No. 2	03-03-08	10-01-27	1.50%	3,030,000	956,842	2,073,158
SRF Clearwell No. 2	08-22-08	10-01-29	1.50%	4,040,000	1,053,526	2,986,474
SRF Recovered Water Outfall	08-05-09	10-01-29	1.50%	1,376,473	289,725	1,086,748
SRF Bond Street CSO	10-13-10	10-31-31	2.90%	1,994,497	103,506	1,890,991
PWTFL Water Pollution Facility Expansion	06-25-06	07-01-26	0.50%	7,000,000	2,578,947	4,421,053
WPTFL WPCF Plant Expamsnsion Phase C	01-31-13	06-01-32	0.50%	6,131,787	128,461	6,003,326
Mukilteo Water District	01-01-11	09-30-24	7.82%	140,883	54,600	86,283
Leases Payable	05-15-03	07-01-17	2.00-5.00%	54,098	13,800	40,298
Total Business Activities				54,464,384	19,773,408	34,690,976
TOTAL OTHER LONG-TERM DEBT				**$ 57,395,264**	**$ 21,931,328**	**$ 35,463,936**

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
2015	167,005	5,526	172,531	2,901,654	353,680	3,255,334
2016	167,005	4,131	171,136	2,877,526	330,124	3,207,650
2017	109,279	2,737	112,015	2,872,230	299,695	3,171,925
2018	109,278	1,919	111,197	2,865,889	270,313	3,136,202
2019	55,099	1,102	56,201	2,861,012	241,153	3,102,164
2020 - 2024	165,294	1,653	166,947	13,043,289	783,183	13,826,472
2025 - 2029	-	-	-	5,829,345	243,387	6,072,732
2030 - 2032	-	-	-	1,440,030	36,021	1,476,051
TOTAL	**$ 772,960**	**$ 17,067**	**$ 790,027**	**$ 34,690,976**	**$ 2,557,556**	**$ 37,248,531**

Bond Covenants, Limitations and Restrictions

At December 31, 2014, restricted assets of enterprise funds include $13,202,106 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, 2014 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	$ 187,787,368	$ 125,191,579	$ 312,978,947	$ 312,978,947
Net Outstanding Indebtedness	54,032,960	-	-	-
Margin Available	**$ 133,754,408**	**$ 125,191,579**	**$ 312,978,947**	**$ 312,978,947**

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, 2014, the asset cost of Everett Station was $47,049,382, with accumulated depreciation of $12,967,950, resulting in a cost net of depreciation of $34,081,432. Noncancelable leases provide for minimum annual payments as follows:

Year Ending December 31	Minimum Future Rentals
2015	$ 155,578
2016	38,367
Total	$ 193,945

Operating Leases and Other Contractual Commitments

The City leases equipment and office and storage space under noncancelable operating leases. Total operating lease expenditures for 2014 were $505,174 in governmental activities and $584,482 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
2015	$ 514,492	$ 1,384,463
2016	13,442	336,568
2017	-	162,000
Total	$ 527,934	$ 1,883,032

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, 2014 appear as follows:

	Governmental Fund	Enterprise Funds
Machinery and equipment	$ 7,977	$ 60,557
Less accumulated depreciation	(7,977)	(15,139)
Machinery and equipment, net of depreciation	$ (0)	$ 45,418

The future minimum lease obligations and the net present value of minimum lease payments as of December 31, 2014 appear as follows:

Year Ending December 31	Governmental Fund	Enterprise Funds
2015	-	18,153
2016	-	18,153
2017	-	13,614
Total minimum lease payments	-	49,920
Less amounts attributable to interest	-	(6,059)
Net present value of minimum lease payments	$ -	$ 43,861

Construction Commitments

As of December 31, 2014, 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	$183,074	$85,995
TRANSMISSION LINE 5 - PILCHUCK RIVER CROSSING	796,464	2,502,178
RESERVOIR #6 ROOF REPLACEMENT	2,545,414	2,024,301
EAST GRAND AVENUE SEWER SYSTEM REPLACEMENT	854,150	4,912,871
EAST EVERETT PEDESTRIAN WALKWAY	904,570	18,209
BROADWAY BRIDGE REPLACEMENT	1,814,166	7,841,231
WPCF Phase C Improvements	3,948,344	2,567,890
Water Pollution Control Facility Expansion	7,766,270	24,421,490
Sewer Replacement & Capacity Improvement "L"	1,986,392	436,674
Riverfront Development Projects	8,199,581	465,522
Quality Assurance Inspection & Testing WPCF Phase C1	22,387	229,828
Pipeline from Everett to Tulalip Reservation	9,182,722	313,612
Monitoring Sewer Services	958,527	86,881
Everett WFP PLC	345,020	263,817
Everett Sewer "M" Project	1,916,223	691,291
Comprehensive Sewer Plan Update	903,548	152,027
Everett parks improvement projects	435,091	1,597,819
Everett Transit various improvement projects	85,510	35,427
Total	$ 42,847,456	$ 48,647,061

NOTE 12 – CHANGES IN LONG-TERM LIABILITIES

Changes in Long-term Liabilities

During the year ended December 31, 2014, the following changes occurred in long-term liabilities:

	Beginning Balance 01-01-14	Additions	Reductions	Ending Balance 12-31-14	Due Within One Year
Governmental Activities					
Bonds payable:					
General obligation bonds	$ 22,835,000	$ 35,865,000	$ (10,440,000)	$ 48,260,000	$ 1,610,000
Plus deferred amounts:					
For issuance premiums	914,956	-	(70,381)	844,575	70,381
Total bonds payable:	23,749,956	35,865,000	(10,510,381)	49,104,575	1,680,381
Governmental loans	992,274	-	(219,314)	772,960	167,005
Pollution remediation liability	5,008,950	163,000	(125,000)	5,046,950	368,000
Capital Leases	1,057	-	(1,057)	-	-
OPEB Obligations	1,594,306	2,255,404	-	3,849,710	-
Claims and judgements	13,775,898	16,564,161	(16,652,349)	13,687,710	4,794,452
Compensated absences	10,464,392	8,201,524	(8,131,063)	10,534,852	4,267,407
Governmental activity long-term liabilities:	$ 55,586,833	$ 63,049,089	$ (35,639,164)	$ 82,996,757	$ 11,277,245
Business-Type Activities					
Bonds payable:					
General obligation bonds	$ 6,000,000	$ -	$ (1,000,000)	$ 5,000,000	$ 1,000,000
Revenue bonds	147,880,000	-	(4,915,000)	142,965,000	5,125,000
Plus deferred amounts:					
For issuance premiums	12,226,120	-	(708,168)	11,517,951	708,169
Total bonds payable:	166,106,120	-	(6,623,168)	159,482,951	6,833,169
Governmental loans	32,146,274	5,396,290	(2,891,886)	34,650,678	2,886,588
Pollution remediation liability	300,000	-	-	300,000	-
Capital leases	54,098	-	(13,800)	40,298	15,066
Compensated absences	2,038,505	2,656,755	(2,679,660)	2,015,600	1,251,582
Business-type activity long-term liabilities:	$ 200,644,997	$ 8,053,045	$ (12,208,514)	$ 196,489,527	$ 10,986,405

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 $189,877 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.

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, 2014 appear as follows:

	INTERFUND LOANS RECEIVABLE	INTERFUND LOANS PAYABLE	ADVANCES TO OTHER FUNDS	ADVANCES FROM OTHER FUNDS
General Fund	$ 101,000	$ -	$ 7,134,168	$ -
Water & Sewer Utility	900,200	-	-	-
Nonmajor Governmental Funds	-	101,000	-	-
Nonmajor Enterprise Funds	-	900,200	-	7,134,168
TOTAL	**$ 1,001,200**	**$ 1,001,200**	**$ 7,134,168**	**$ 7,134,168**

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, 2014 appear as follows:

	DUE FROM OTHER FUNDS	DUE TO OTHER FUNDS
General Fund	$ 104	$ 95,927
Nonmajor Governmental Funds	95,927	104
TOTAL	**$ 96,031**	**$ 96,031**

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, 2014 appears as follows:

	TRANSFERS IN				
	General Fund	Capital Improvement Reserve Fund	Nonmajor Governmental Funds	Internal Service Funds	TOTAL
TRANSFERS OUT					
General Fund	$ -	$ -	$ 1,072,513	$ 135,611	$ 1,208,124
Capital Improvement Reserve Fd	991,345	-	2,227,527	-	3,218,872
Water & Sewer Utility	4,165,320	-	-	-	4,165,320
Transit	191,700	-	-	-	191,700
Nonmajor Governmental Funds	28,076,970	405,746	2,410,441	-	30,893,158
Internal Service Funds	71,511	-	-	-	71,511
TOTAL	**$ 33,496,846**	**$ 405,746**	**$ 5,710,482**	**$ 135,611**	**$ 39,748,685**

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 2014, the following significant transfers were completed;

- $27,666,893 from Fund 210 – Debt Service Fund, to Fund 002 – General fund.
- $1,006,390 from Fund 157 - Traffic Mitigation Fund – a non-major governmental fund, to Fund 303 - Public Works Improvement, a Capital Project fund.
- $500,000 from Fund 162 – Capital Projects Reserve, to Fund 303 - Public Works Improvement, a Capital Project fund.
- $444,021 from Fund 303 - Public Works Improvement, a Capital Project fund, to Fund 157 - Traffic Mitigation Fund – a Non-Major Governmental fund.
- $404,408 from Fund 308 - Riverfront Development, a Capital Project, to Fund 162 - Capital Projects Reserve

NOTE 15 – RECEIVABLE AND PAYABLE BALANCES

Receivables at December 31, 2014 appear as follows:

	Taxes	Customer Accounts	Interest	Due from Other Governments	Notes Receivable	TOTAL
Governmental Activities:						
General Fund	$ 11,375,395	$ 2,150,871	$ 80,952	$ 27,950,887	$ 70,870	$ 41,628,975
Capital Improvement Reserve Fund	187,456	45,422	16,769	-	-	249,647
Nonmajor Governmental Funds	187,456	202,282	17,850	310,127	13,961,997	14,679,712
Internal Service Funds	-	15,556	13,397	2,345	-	31,298
Total Governmental Activities	$ 11,750,307	$ 2,414,131	$ 128,968	$ 28,263,359	$ 14,032,867	$ 56,589,632
Business-Type Activities:						
Water & Sewer Utility	$ -	$ 7,187,867	$ 116,055	$ 2,104,544	$ -	$ 9,408,466
Transit	3,306,836	50,793	1,950	230,938	-	3,590,517
Nonmajor Enterprise Funds	-	280,734	5,405	19,701	-	305,840
Total Business-Type Activities	$ 3,306,836	$ 7,519,394	$ 123,410	$ 2,355,183	$ -	$ 13,304,823

Governmental Activities

General Fund - Customer Accounts include $2,071,112 Muni Court receivable
Statement of Net Position

General Fund - Notes Receivable excludes $1,069,130 discount on notes reported in the Government Wide Statement of Net Position

Payables at December 31, 2014 appear as follows:

	Wages & Benefits	Accounts	Interest	Taxes	Due to Other Governments	Custodial Accounts	Other Liabilities	TOTAL
Governmental Activities:								
General Fund	$4,167,631	$1,181,677	$86,860	$ -	$ 111,902	$ 733,401	$ 139,883	$ 6,421,354
Nonmajor Governmental Funds	$480,318	314,545	-	-	34	-	615	795,512
Internal Service Funds	110,719	627,691	-	-	-	-	102,887	841,297
Total	$ 4,758,668	$ 2,123,913	$ 86,860	$ -	$ 111,936	$ 733,401	$ 243,385	$ 8,058,163
Business-Type Activities:								
Water & Sewer Utility	$ 1,051,768	$ 3,062,986	$ 660,512	$ 4,582	$ 1,300,525	$ -	$ -	$ 6,080,373
Transit	603,045	468,866	-	2,728	394,577	-		1,469,216
Nonmajor Enterprise Funds	46,486	117,275	15,208	9,436	-	-	-	188,405
Total	$ 1,701,298	$ 3,649,127	$ 675,720	$ 16,746	$ 1,695,102	$ -	$ -	$ 7,737,993

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	$ 113,004
Business-Type Activities	
Water and Sewer	$ 811,720
Transit	415,832
Nonmajor Enterprise	24,029

NOTE 16 – JOINT VENTURES

Joint Ventures - The City, in conjunction with other governmental entities, participates in five 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, 2014 and recorded an investment in the joint venture in the utility fund of $669,332. As of December 31, 2014, 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, 2014, the City has a 15.36 percent interest in the SERS joint venture and a recorded equity interest of $1,750,600. 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, 2014, is $111,710 which represents unearned fare revenue. Everett Transit's percentage share of the operating expense for 2014 was 1.36%. 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.

The Snohomish County Police Staff and Auxiliary Services Center (SNOPAC) a cash basis, special purpose district was created under the Interlocal Cooperation Act as codified in RCW 39.34, with the City of Everett Police and Fire in addition to other 36 Police and Fire entities. This established the statutory authority necessary for Snohomish County, the Cities, Towns, Fire Districts, Police Districts and other service districts to enter into a contract and agreement to jointly establish, maintain and operate a support communications center. The control of SNOPAC is with an 11 member Board of Directors which is specified in the Interlocal Agreement. SNOPAC takes 911 calls, and performs emergency dispatch services for local governmental agencies including police, fire and medical aid. As of December 31, 2014, the City of Everett's share of total ending cash balance was $5,470,323, which was calculated by multiplying ending cash balance by 2014 Operating Assessment percentage .

In the event of the dissolution of SNOPAC, any money in the possession of SNOPAC or the Board of Directors after payment of all costs, expenses and charges validly incurred will be returned to the parties to the agreement in portion to the contribution during the fiscal year of dissolution. Separate financial statements for SNOPAC can be obtained from SNOPAC's administrative office at 1121 SE Everett Mall Way, Suite 200, Everett, WA 98208.

The Alliance for Housing Affordability (AHA) was created in 2013 by the City of Everett and eleven other jurisdictions within Snohomish County to cooperatively formulate affordable housing goals and policies and to foster efforts to provide affordable housing by providing expertise and information to member jurisdictions. The AHA is governed by a Joint Board composed of an elected official from the jurisdictions. The Joint Board is responsible for review and approval of all budgetary, financial, policy, and contractual matters. The Board is assisted by an administrative staff housed at the Housing Authority for Snohomish County. Fiscal agent duties are performed by the City of Mountlake Terrace. Operating funding is provided by the member cities based on each member's population. The City of Everett population makes up approximately 15.7% of total member's population. The City's contribution requirements are as follows:

	2016	2015	2014	2013
Total Budget	$ 43,652	$ 49,996	$ 42,119	$ 39,849
City of Everett	$ 6,211	$ 7,914	$ 6,399	$ 6,231

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

Budget monitoring information can be obtained from Alliance for Housing Affordability, 12625 4th Ave W, Suite 200, Everett, WA 98204 or City of Mountlake Terrace at 6100 219th St SW, Mountlake Terrace, WA 98043.

NOTE 17 – POLLUTION REMEDIATION OBLIGATIONS

The City recorded the following pollution remediation obligations as other liabilities in its financial statements as of December 31, 2014, 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	363,000	
2731 36th Street Southeast	100,000	
2808 10th Street	50,050	
144 West Marine View Drive		$ 300,000
TOTALS	**$ 5,046,950**	**$ 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, 2014, 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, 2014, 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, 2014, the City estimated the liability with regard to pollution remediation at this site to be $363,000.

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, 2014, the City concluded that additional remediation was needed, and estimated the liability with regard to pollution remediation at this site to be $100,000.

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, 2014, 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, 2014, 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, 2014 the City of Everett implemented GASB Statement No. 67, Financial Reporting for Pension Plans. GASB 67 replaces the requirements of Statement No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans, and GASB Statement No. 50, Pension Disclosures, as they relate to pension plans that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The provisions of this standard have been incorporated into the financial statements and the notes (see note1).

B. SUBSEQUENT EVENTS

In June 2014, The City council adopted an ordinance No. 3386-14 establishing a Transportation Benefit District (TBD), and on August 6, 2014, the City Council convened as the Board of Directors of the Transportation Benefit District and adopted District Resolution No.3, approving a $20.00 Vehicle License Fee. In February 18, 2015 the City council adopted an ordinance No. 3427-15 establishing a special revenue fund entitled, “Transportation Benefit District," Fund 159, to account for all financial transactions relating to the City of Everett Transportation Benefit District. The preliminary estimates based on the Washington State Department of Licensing vehicle counts, the City would collect around $1,200,000 annually. The vehicle license fee revenue is restricted for the purpose of making transportation improvements that preserve, maintain, and improve the City's transportation infrastructure. Establishing a new special revenue fund to account for financial transactions relating to the TBD will facilitate reporting and accountability for these restricted funds.

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES-BUDGET AND ACTUAL

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL GENERAL FUND FOR YEAR ENDED DECEMBER 31, 2014

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET - POSITIVE (NEGATIVE)
REVENUES				
Taxes	$ 79,682,807	$ 80,037,807	$ 82,191,604	$ 2,153,797
Licenses and permits	1,363,451	1,363,451	1,893,008	529,557
Intergovernmental revenues	2,510,596	3,207,629	2,802,835	(404,794)
Charges for services	7,428,247	7,410,247	8,969,220	1,558,973
Fines and forfeits	1,791,760	1,809,760	1,854,286	44,526
Other revenues	875,800	875,800	1,417,852	542,052
TOTAL REVENUES	**93,652,661**	**94,704,694**	**99,128,805**	**4,424,111**
EXPENDITURES				
Current:				
General government services	18,161,807	25,156,807	21,832,039	3,324,768
Security of persons and property	60,448,224	59,952,140	55,780,356	4,171,784
Transportation	3,913,444	3,913,444	3,961,835	(48,391)
Economic environment	5,875,028	6,117,864	5,274,289	843,575
Mental and physical health	930,315	942,315	886,861	55,454
Culture and recreation	678,292	678,292	716,757	(38,465)
Capital outlay	45,288	95,055	99,513	(4,458)
TOTAL EXPENDITURES	**90,052,398**	**96,855,917**	**88,551,650**	**8,304,267**
Excess (deficiency) of revenues over (under) expenditures	3,600,263	(2,151,223)	10,577,155	12,728,378
OTHER FINANCING SOURCES (USES)				
Transfers in	4,936,160	4,937,160	32,474,324	27,537,164
Transfers out	(1,228,597)	(1,228,597)	(2,203,455)	(974,858)
Total other financing sources (uses)	**3,707,563**	**3,708,563**	**30,270,869**	**26,562,306**
Net change in fund balances	7,307,826	1,557,340	40,848,024	39,290,684
Fund balances - beginning	15,392,174	21,042,660	27,329,933	6,287,273
FUND BALANCES - ENDING	**$ 22,700,000**	**$ 22,600,000**	**$ 68,177,957**	**$ 45,577,957**

SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
CAPITAL IMPROVEMENT RESERVE FUND
FOR YEAR ENDED DECEMBER 31, 2014

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET - POSITIVE (NEGATIVE)
REVENUES				
Taxes	$ 1,280,300	$ 1,280,300	$ 1,722,002	$ 441,702
Other revenues	462,373	462,373	1,100,175	637,802
TOTAL REVENUES	**1,742,673**	**1,742,673**	**2,822,177**	**1,079,504**
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	1,242,673	1,242,673	2,322,177	1,079,504
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	405,746	405,746
Transfers out	(2,167,590)	(5,386,237)	(3,218,872)	2,167,365
Total other financing sources (uses)	**(2,167,590)**	**(5,386,237)**	**(2,813,126)**	**2,573,111**
Net change in fund balances	(924,917)	(4,143,564)	(490,949)	3,652,615
Fund balances - beginning	15,670,470	16,866,617	16,503,700	(362,917)
FUND BALANCES - ENDING	**$ 14,745,553**	**$ 12,723,053**	**$ 16,012,751**	**$ 3,289,698**

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

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

Revenues	
Actual Amount	$ 99,128,805
Differences - Budget to GAAP Add funds no longer meeting the definition of special revenue funds per GASB Statement No. 54 to General Fund	
Parks & Recreation Fund	5,870,002
Library Fund	3,645,016
Municipal Arts Fund	896,413
Conference Center Fund	88,968
General Gov't Special Proj Fund	5,770
Motor Vehicle Equip Repl Fund	349,672
Downtown Improvement Fund	32
Cum Reserve Real Prop Acq Fund	101,781
Property Management Fund	1,253,443
Senior Center Reserve Fund	80,003
Contingency Reserve Fund	130,862
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balance - general fund	$ 111,550,767
Expenditures	
Actual Amount	$ 88,551,650
Differences - Budget to GAAP Add funds no longer meeting the definition of special revenue funds per GASB Statement No. 54 to General Fund	
Parks & Recreation Fund	8,550,346
Library Fund	4,881,893
Municipal Arts Fund	886,647
Conference Center Fund	16,043
General Gov't Special Proj Fund	6,423
Motor Vehicle Equip Repl Fund	1,643,411
Cum Reserve Real Prop Acq Fund	68,075
Property Management Fund	2,092,831
Senior Center Reserve Fund	70,744
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balance - general fund	$ 106,768,063

FIRE AND POLICE PENSION FUNDS

SCHEDULE OF CHANGES IN THE CITY'S NET PENSION LIABILITY AND RELATED RATIOS
Last Five Fiscal Years

	2014	2013	2012	2011	2010
Fire					
Total pension liability					
Service cost *	$ -	$ -	$ -	$ -	$ -
Interest expense	351,129	346,510	391,019	397,248	558,350
Difference between expected and actual experience	166,407	139,328	117,605	97,689	90,690
Changes of assumptions	-	-	(913,665)	-	(3,120,762)
Benefits paid	(903,309)	(393,464)	(485,124)	(619,526)	(750,321)
Net changes	(385,773)	92,374	(890,165)	(124,589)	(3,222,043)
Total pension liability-beginning	7,022,580	6,930,206	7,820,371	7,944,960	11,167,003
Total pension liability-ending	$ 6,636,807	$ 7,022,580	$ 6,930,206	$ 7,820,371	$ 7,944,960
Plan fiduciary net position					
Contributions-employer/state	$ 170,627	$ 155,946	$ 147,478	$ 154,877	$ 149,966
Net investment income	511,470	101,404	245,782	461,607	163,869
Benefit payments	(903,309)	(393,464)	(485,124)	(619,526)	(750,321)
Other	(625)	(505)		(3,729)	(697)
Net changes in plan fiduciary net position	(221,837)	(136,619)	(91,864)	(6,771)	(437,183)
Plan fiduciary net position-beginning	10,286,981	10,423,600	10,225,226	4,231,997	4,669,180
Prior period correction			290,238	6,000,000	
Plan fiduciary net position-ending	$ 10,065,144	$ 10,286,981	$ 10,423,600	$ 10,225,226	$ 4,231,997
Net pension liability	$ (3,428,337)	$ (3,264,401)	$ (3,493,394)	$ (2,404,855)	$ 3,712,963
Plan fiduciary net position as a percentage of the total pension liability	151.66%	146.48%	150.41%	130.75%	53.27%
Covered employee payroll	$ 286,645	$ 339,682	$ 622,642	$ 545,905	$ 891,440
Net pension liability as a percentage of covered employee payroll	-1196.02%	-961.02%	-561.06%	-440.53%	416.51%
Police					
Total pension liability					
Service cost *	$ -	$ -	$ -	$ -	$ -
Interest expense	298,634	303,704	297,663	306,872	296,385
Difference between expected and actual experience	24,155	32,832	38,128	42,485	45,660
Changes of assumptions	-	-	311,552	-	455,201
Benefits paid	(375,942)	(437,940)	(526,522)	(533,545)	(587,493)
Net changes	(53,153)	(101,404)	120,821	(184,188)	209,753
Total pension liability-beginning	5,972,680	6,074,083	5,953,262	6,137,450	5,927,697
Total pension liability-ending	$ 5,919,527	$ 5,972,680	$ 6,074,083	$ 5,953,262	$ 6,137,450
Plan fiduciary net position					
Contributions-employer/state	$ -	$ -	$ -	$ -	$ -
Net investment income	286,620	67,963	85,863	220,625	34,493
Benefit payments	(375,942)	(437,940)	(526,522)	(533,545)	(587,493)
Other	(125)	(125)		-	-
Net changes in plan fiduciary net position	(89,447)	(370,102)	(440,659)	(312,920)	(553,000)
Plan fiduciary net position-beginning	2,593,724	2,963,826	4,779,368	592,288	1,145,288
Prior period correction			(1,374,883)	4,500,000	
Plan fiduciary net position-ending	$ 2,504,277	$ 2,593,724	$ 2,963,826	$ 4,779,368	$ 592,288
Net pension liability	$ 3,415,250	$ 3,378,956	$ 3,110,257	$ 1,173,894	$ 5,545,162
Plan fiduciary net position as a percentage of the total pension liability	42.31%	43.43%	48.79%	80.28%	9.65%
Covered employee payroll	$ 239,221	$ 306,766	$ 362,732	$ 436,656	$ 767,632
Net pension liability as a percentage of covered employee payroll	1427.65%	1101.48%	857.45%	268.84%	722.37%

* Service cost is $0, since none of the active employees are eligible for the additional service credits.

This schedule will be 10 years as information is available

SCHEDULE OF CITY CONTRIBUTION
Last Five Fiscal Years

Fire	2014	2013	2012	2011	2010
Actuarially determined contribution	$ (187,676)	$ (178,998)	$ (131,810)	$ (125,850)	$ 105,226
Contributions	170,627	155,946	147,478	154,877	149,966
Contribution deficency (excess)	$ (358,303)	$ (334,944)	$ (279,288)	$ (280,727)	$ (44,740)
Covered employee payroll	$ 286,645	$ 339,682	$ 622,642	$ 545,905	$ 891,440
Contributions as a percentage of covered-employee payroll	59.53%	45.91%	23.69%	28.37%	16.82%
Police					
Actuarially determined contribution	$ 185,912	$ 177,059	$ 131,541	$ 125,278	$ 111,447
Contributions	-	-	-	-	-
Contribution deficency (excess)	$ 185,912	$ 177,059	$ 131,541	$ 125,278	$ 111,447
Covered employee payroll	$ 239,221	$ 306,766	$ 362,732	$ 436,656	$ 767,632
Contributions as a percentage of covered-employee payroll	0.00%	0.00%	0.00%	0.00%	0.00%

Valuation date:
Actuarially determined contribution rates are calculated as December 31, 2012

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age
Amortization period	Closed 30 year amortization period of the unfunded obligation beginning January 1, 2000.
Asset valuation method	Actuarial value of assets equal to market value
Inflation	3%
Salary increase	3%
Investment rate of return	5%
Mortality	RP-2000 Mortality Tables for male and female, projected to 2015 with Scale AA
Retirement age	Under age 60 will retire in 3 years Ages 60-64 will retire in 2 years Over age 64 will retire in 1 year

This schedule will be 10 years as information is available

SCHEDULE OF INVESTMENT RETURNS
Last Five Fiscal Years

Annual money-weighted rate of return, net of investment expenses	2014	2013	2012	2011	2010
Fire	9.76%	-6.52%	2.14%	7.48%	3.76%
Police	9.82%	-6.31%	2.68%	6.40%	3.66%

This schedule will be 10 years as information is available

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
2014	$ 1,242,997	4%	$ 1,128,913	5%
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%

Schedules of Funding Progress

The actuarial cost method used in the valuation of the OPEB plans is 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%

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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended December 31, 2014

SCHEDULE 16
(Page 1 of 2)

Federal Agency	Pass-Through Agency	Federal Prog Name	CFDA Number	Other ID Number	From Pass-Throug Award	From Direct Award	Total	
US Dept of Agriculture		SNAP Partnership Grant	10.577		-	251	251	
US Dept of Agriculture	WA Dept of Natural Resources	Cooperative Forestry Assistance	10.664		200	-	200	
US Dept of HUD		Community Development Block Grants/Entitlement Grants	14.218			334,929		
US Dept of HUD		Community Development Block Grants/Entitlement Grants	14.218	Program Income		173,789		Note 3a
US Dept of HUD		Community Development Block Grants/Entitlement Grants	14.218			778,119		
US Dept of HUD		Community Development Block Grants/Entitlement Grants	14.218	Program Income		535		Note 3a
				Sub-Total	-	1,287,372	1,287,372	
US Dept of HUD	SnoCo Human Services	Home Investment Partnership Program	14.239		114,320			
US Dept of HUD	SnoCo Human Services	Home Investment Partnership Program	14.239	Program Income	204,409			Note 3a
				Sub-Total	318,729	-	318,729	
US Dept of Interior	WA Dept of Archae & Hist Presvt	Historic Preservation Fund Grants-In-Aid	15.904	FY14-61014-004	22,347	-	22,347	
US Dept of Justice	SnoCo Sheriff	Edward Byrne Memorial Formula Grant Program	16.579	F97-374-017	31,272	-	31,272	
US Dept of Justice	WA Dept of Commerce	ARRA - Violence Against Women Formula Grants	16.588	F13-31103-060	29,053	-	29,053	
US Dept of Justice		Bullet Proof Vest Partnership Program	16.607			6,422		
US Dept of Justice		Bullet Proof Vest Partnership Program	16.607			7,092		
				Sub-Total	-	13,514	13,514	
US Dept of Justice		Edward Byrne Memorial Justice Assistance Grant Program	16.738	2011-DJ-BX-2383		3,806		
US Dept of Justice		Edward Byrne Memorial Justice Assistance Grant Program	16.738	Program Income		30		Note 3b
US Dept of Justice		Edward Byrne Memorial Justice Assistance Grant Program	16.738	2012-DJ-BX-0342		12,507		
US Dept of Justice		Edward Byrne Memorial Justice Assistance Grant Program	16.738	Program Income		330		Note 3b
US Dept of Justice		Edward Byrne Memorial Justice Assistance Grant Program	16.738	2013-DJ-BX-0208		16,341		
US Dept of Justice		Edward Byrne Memorial Justice Assistance Grant Program	16.738	Program Income		696		Note 3b
				Sub-Total	-	33,710	33,710	
US DOT FHWA	WA DOT	Highway Planning and Construction	20.205	CM-STPE-2799(001) Congestion Mitigation	78,350			Note 5a
US DOT FHWA	WA DOT	Highway Planning and Construction	20.205	STPUL-2588(001) Surface Transportation	3,301			Note 5a
US DOT FHWA	WA DOT	Highway Planning and Construction	20.205	HSIP-000S(240) Highway Safety Improvement	2,080			Note 5a
US DOT FHWA	WA DOT	Highway Planning and Construction	20.205	CM-0099(104) SR 99/Evergreen Way	144			
US DOT FHWA	WA DOT	Highway Planning and Construction	20.205	STPD-BRM-2715(009) Broadway Bridge	471,602			Note 5b
US DOT FHWA	WA DOT	Highway Planning and Construction	20.205	STPUL-9931(012) 41st St to W Marine View Dr	126,120			
US DOT FHWA	WA DOT	Highway Planning and Construction	20.205	HSIP-000S(330) City Ctr Safety Improvem't	5,781			
US DOT FHWA	WA DOT	Highway Planning and Construction	20.205	HSIP000S(331) Pacific Ave & Broadway	6,045			
US DOT FHWA	WA DOT	Highway Planning and Construction	20.205	SRTS-0420(021) Hawthorne Elementary	18,081			
US DOT FHWA	WA DOT	Highway Planning and Construction	20.205	HSIP-2791(005) Evergreen & Pecks Dr	268,209			
US DOT FHWA	WA DOT	Highway Planning and Construction	20.205	HSIP000S(372) Everett Citywide Guardrail	467,731			
US DOT FHWA	WA DOT	Highway Planning and Construction	20.205	CM-STPE-0420(0180) 36th St/BNSF Rail	2,261			
				Sub-Total	1,449,705	-	1,449,705	
US DOT FTA		Federal Transit Capital Investment Grant	20.500		-	12,692	12,692	
US DOT FTA		Federal Transit-Formula Grants	20.507			16,000		
US DOT FTA		Federal Transit-Formula Grants	20.507			182,789		
US DOT FTA		Federal Transit-Formula Grants	20.507			509,717		
				Sub-Total	-	708,506	708,506	

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

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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended December 31, 2014

SCHEDULE 16
(Page 2 of 2)

Federal Agency	Pass-Through Agency	Federal Prog Name	CFDA Number	Other ID Number	From Pass-Throug Award	From Direct Award	Total	
US DOT	WA Traffic Safety Comm	State and Community Highway Safety	20.600		1,473			
US DOT	WA Traffic Safety Comm	State and Community Highway Safety	20.600		2,509			
US DOT	WA Traffic Safety Comm	State and Community Highway Safety	20.600		463			
				Sub-Total	4,445	-	4,445	
US DOT	WA Traffic Safety Comm	Occupant Protection Incentive Grants	20.602		1,565	-	1,565	
US DOT	WA Traffic Safety Comm	National Priority Safety Programs	20.616		9,784	-	9,784	
US EPA		Brownfields Assmt & Cleanup Co-op Agr	66.818	BF-00J79301-0	-	110,839	110,839	
US Dept of Homeland Security	WA Parks & Rec Comm	Boating Safety Financial Assistance	97.012	LE000-010	18,712	-	18,712	
US Dept of Homeland Security	WA Military Department	Disaster Grants - Public Assitance	97.036	D12-141	54,551	-	54,551	
US Dept of Homeland Security	WA Military Department	Hazard Mitigation Grant	97.039	D15-002	1,186	-	1,186	
US Dept of Homeland Security	WA Military Department	Emergency Management Performance Grants (EMPG)	97.042	E14-135	49,571			
US Dept of Homeland Security	WA Military Department	Emergency Management Performance Grants (EMPG)	97.042	E15-137	7,046			
				Sub-Total	56,617	-	56,617	
US Dept of Homeland Security	WA Military Department	Pre-Disaster Mitigation	97.047	E11-135	144	-	144	
US Dept of Homeland Security	City of Seattle	Port Security Grant Program	97.056		230	-	230	
US Dept of Homeland Security	Snohomish County	Homeland Security Grant Program	97.067	E12-203	32,366			
US Dept of Homeland Security	Snohomish County	Homeland Security Grant Program	97.067	E12-203	4,286			Note 4
US Dept of Homeland Security	Snohomish County	Homeland Security Grant Program	97.067	E13-152	13,219			
US Dept of Homeland Security	City of Seattle	Homeland Security Grant Program	97.067	E11-220	21,909			Note 4
US Dept of Homeland Security	City of Seattle	Homeland Security Grant Program	97.067	E14-093	19,578			
				Sub-Total	91,358	-	91,358	
					2,089,898	**2,166,884**	**4,256,782**	

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.

NOTE 4 – NONCASH AWARDS- EQUIPMENT

The City received equipment and supplies that were purchased with federal Homeland Security funds by the Snohomish County and 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.

NOTE 5 –AWARD FOR PRIOR YEAR EXPENDITURE

a) The City received additional award after the program was completed and grantor performed an administrative review. The amount represents prior years' expenditure and was not included in 2013's SEFA.
b) An amendment was made to 2013 final billing to the grantor. Subsequently, the City received $191,085 in 2014 for 2013's expenditure. This amount was not included in 2013's SEFA.
c) An amendment was made to 2013 final billing to the grantor. Subsequently, the City received $159,310 in 2014 for 2013's expenditure. This amount was not included in 2013's SEFA.

CORRECTIVE ACTION PLAN FOR FINDINGS REPORTED UNDER OMB CIRCULAR A-133

City of Everett
Snohomish County
January 1, 2014 through December 31, 2014

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.

<table>
<tr><td>Finding ref number:
2014-001</td><td>Finding caption:
The City's internal controls were not adequate to ensure compliance with Federal Funding Accountability and Transparency Act reporting requirements.</td></tr>
<tr><td colspan="2">Name, address, and telephone of auditee contact person:
Andy Lee
2930 Wetmore Avenue, Suite 9H
Everett, WA 98201
(425) 257-8604</td></tr>
<tr><td colspan="2">Corrective action the auditee plans to take in response to the finding:
The Finance Department will review the subrecipient monitoring procedures to ensure the federal reporting requirements are met. The Finance Department has designed Federal Funding Accountability and Transparency Act (FFATA) data collection instructions, which will be distributed to the departments.</td></tr>
<tr><td colspan="2">Anticipated date to complete the corrective action: August 31, 2015</td></tr>
</table>

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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