Washington State Auditor's Office

Financial Statements Report

City of Marysville

Snohomish County

Audit Period

January 1, 2012 through December 31, 2012

Report No. 1010257

Issue Date

August 19, 2013

Washington
Troy Kelley
State Auditor

Washington State Auditor
Troy Kelley

August 19, 2013

Mayor and City Council
City of Marysville
Marysville, Washington

Report on Financial Statements

Please find attached our report on the City of Marysville's financial statements.

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

Sincerely,

TROY KELLEY
STATE AUDITOR

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Snohomish County
January 1, 2012 through December 31, 2012

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 Marysville
Snohomish County
January 1, 2012 through December 31, 2012

Mayor and City Council
City of Marysville
Marysville, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Marysville, Snohomish County, Washington, as of and for the year ended December 31, 2012, 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 18, 2013.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

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

Troy X. Kelley

TROY KELLEY
STATE AUDITOR

June 18, 2013

Independent Auditor's Report on Financial Statements

City of Marysville
Snohomish County
January 1, 2012 through December 31, 2012

Mayor and City Council
City of Marysville
Marysville, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Marysville, Snohomish County, Washington, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed on page 5.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Marysville, as of December 31, 2012, and the respective changes in financial position and, where applicable, cash flows thereof, and the budgetary comparison for the General Fund, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 6 through 15 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated June 18, 2013 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Troy X. Kelley

TROY KELLEY
STATE AUDITOR

June 18, 2013

Financial Section

City of Marysville
Snohomish County
January 1, 2012 through December 31, 2012

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MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Marysville presents this discussion and analysis of its financial performance to provide an overview of the City's financial activities for fiscal year ended December 31, 2012. We encourage readers to consider the information presented here in conjunction with the accompanying basic financial statements and the associated notes.

FINANCIAL HIGHLIGHTS

- Assets of the City of Marysville exceed its liabilities at the close of December 31, 2012 by approximately $ 277 million. Of this amount approximately $ 16 million may be used to meet the City's ongoing obligations to citizens and creditors.

- The government's overall financial position increased compared to 2011. The City's total net position increased by $ 2.8 million in 2012. Governmental activities increased by $ .1 million and business-type activities increased by $ 2.7 million.

- As of December 31, 2012, the City's governmental funds reported a combined ending fund balance deficit of $ 4.4 million. The deficit is due to the issuance of short-term financing to fund two street construction projects in the Streets Capital Improvement Fund. The General Fund and Other Governmental Funds combined ended the year with a combined fund balance of $ 9.4 million with 92% unassigned and available for spending at the City's discretion. More detail is provided on the short-term financing in Note 9 of this report.

- As of December 31, 2012, unassigned fund balance in the General Fund was $ 8.8 million, or 26% of total General Fund expenditures.

- The City's total debt decreased by $ 3.3 million during calendar year 2012. The decrease is a result of the annual debt service payments.

The financial statements presented herein include all of the activities of the City of Marysville (City), using the integrated approach as prescribed by Governmental Accounting Standards Board (GASB) Statement No. 34. The City's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

The Government-Wide Financial Statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business. The statements present the financial picture of the City from the economic resources measurement focus using the accrual basis of accounting. They present governmental activities and business-type activities separately. Additionally, certain eliminations have occurred in regards to interfund activity, payable and receivables.

The Fund Financial Statements include statements for each of the three categories of activities – governmental, business-type and fiduciary. The governmental activities are prepared using the current financial resources measurement focus and modified accrual basis of accounting. The business-type activities are prepared using the economic resources measurement focus and the accrual basis of accounting. The fiduciary activities are agency funds, which only report assets and liabilities, and do not have a measurement focus. Reconciliations of the Fund Financial Statements to the Government-Wide Financial Statements are provided to explain the differences created by the integrated approach.

OVERVIEW OF THE FINANCIAL STATEMENTS

Government-Wide Financial Statements

The Statement of Net Position and the Statement of Activities report information about the City as a whole and about its activities. These statements included all assets and liabilities of the City using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenue and expenses are taken into account, regardless of when cash is received or spent.

These two statements report the City's net position and the corresponding changes. Net position is the difference between assets and liabilities, which is one way to measure the City's financial health, or financial position. Over time, increases and decreases in the City's net position are one indicator of whether its financial health is improving or deteriorating. Other factors to consider are changes in the City's property tax base and sales tax base, major sources of revenue for most cities.

In the Statement of Net Position and the Statement of Activities, we separate the City activities as follows:

Governmental Activities – most of the City's basic services are reported in this category, including General Government, Municipal Court, Police, Fire, Engineering, Parks/Recreation, Community Development, Street Maintenance, and General Government Debt Service. Property and sales taxes, user fees, interest income, franchise fees, and state and federal shared revenues and grants generally finance these activities.

Business-Type Activities – The City's Waterworks Utility, Solid Waste, and Golf Course Funds are reported in this category. These types of activities are funded by the City charging a fee to customers to cover all or most of the cost of certain services it provides.

FUND FINANCIAL STATEMENTS

The City, like other state and local governments, uses fund accounting to account for a number of funding sources and activities. In general, fund accounting provides a mechanism for separately accounting for a variety of different funding sources, and enables the City to demonstrate compliance with legal and/or contractual requirements that may be associated with these funds. Thus, the accompanying fund financial statements present individual funds, organized into one of three groups based on the nature of the activities and the purpose: Governmental, Proprietary or Fiduciary Funds. Note that the fund financial statements also include "other governmental funds" on the governmental funds, and "other enterprise funds" on the proprietary funds. In addition, the fund financial statements include a schedule that reconciles the fund financial statements to the Government-Wide Financial Statements. This is designed to explain the difference created by the integrated approach.

Governmental Funds – Most of the City's basic services are reported in the governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides to its citizens. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. The differences between the results shown in the Governmental fund financial statements and those shown in the Government-Wide financial statements are explained in a reconciliation schedule following each Governmental Fund financial statement.

Proprietary Funds – When the City charges customers for the service it provides, whether to outside City customers or to other units of the City, these services are generally reported in proprietary funds. Proprietary funds include two components 1) enterprise funds and 2) internal service funds. Proprietary funds are reported in the same manner that all activities are reported in the Statement of Net Position and the Statement of Revenues, Expenses and Changes in Fund Net Assets. In fact, the City's enterprise funds are the same as the business-type activities reported in the governmental-wide statement, but provide more detail and additional information, such as cash flows, for proprietary funds. Internal service funds are used to report activities that provide supplies and services for the City's other programs and activities – such as fleet maintenance, facility maintenance, and computer maintenance funds. Because these funds largely benefit government rather than business-type functions, they are reported with governmental activities in the government-wide financial statements.

Fiduciary Fund – The City is the trustee, or fiduciary, for certain funds held on behalf of various third parties. The City's fiduciary activities are reported in a separate Statement of Fiduciary Assets and Liabilities. These type of activities are excluded from the City's other financial statements because the City cannot use these assets to finance its operations. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

Notes to the Financial Statements

The notes to the financial statements provide information that is essential to a full understanding of the data provided in the Government-Wide and Fund Financial Statements. The notes to the financial statements immediately follow the basic financial statements in this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Statement of Net Position

In evaluating the financial position of any entity the status of the entity's assets is a very useful indictor. The same is true for the City of Marysville the Statement of Net Position can be used as a financial indicator. The City's net position as of December 31, 2012 totaled $ 277 million. The following is a condensed version of the government-wide statement of net position:

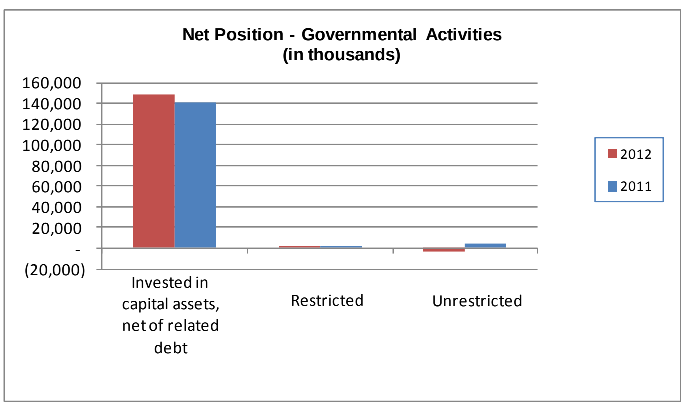
Figure 1: Condensed Statement of Net Position
(in thousands)

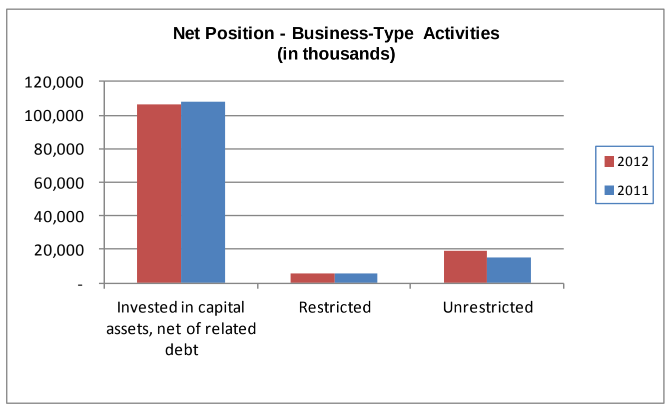
	GOVERNMENTAL ACTIVITIES		BUSINESS-TYPE ACTIVITIES		TOTAL	
	2012	2011	2012	2011	2012	2011
ASSETS						
Curent and other assets	14,038	11,541	34,731	30,991	48,770	42,532
Capital assets (net of accumulated depreciation)	167,860	161,968	164,781	168,383	332,641	330,351
TOTAL ASSETS	**$ 181,898**	**$ 173,509**	**$ 199,512**	**$ 199,375**	**$ 381,411**	**$ 372,883**
Current and other liabilities	14,600	5,275	847	897	15,446	6,173
Long-term liabilities	21,620	22,720	67,307	69,775	88,927	92,495
TOTAL LIABILITIES	**$ 36,219**	**$ 27,995**	**$ 68,154**	**$ 70,672**	**$ 104,373**	**$ 98,668**
Invested in capital assets, net of related debt	148,250	141,420	106,816	108,202	255,066	249,622
Restricted	70	68	5,530	5,514	5,600	5,582
Unrestricted	(2,641)	4,026	19,013	14,986	16,372	19,012
TOTAL NET POSITION	**$ 145,679**	**$ 145,513**	**$ 131,359**	**$ 128,702**	**$ 277,037**	**$ 274,216**

The City's largest portion of net assets, $ 255 million or 92%, is our investment in capital assets such as land, buildings, infrastructure and equipment, less any related outstanding debt issued to purchase those assets. These assets are used to provide necessary services to citizens and are not available for future spending. Although the City's investment in capital assets is reported net of related debt, these capital assets cannot be used to repay the debt. Other resources are needed to liquidate the debt.

An additional portion of the City of Marysville's net position, $ 5.6 million, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position, $ 16.3 million may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the calendar year, the City of Marysville reported positive balances in all three categories of net assets, for the Business-Type Activities, and a positive balance in Invested in capital assets net of related debt and restricted in the Governmental Activities. The Governmental Activities ended the year with a negative unrestricted balance due to the issuance of short-term financing in the Street Capital Improvement Fund. Once the permanent financing has been secured the deficit balance will be eliminated. In 2011, the City report positive balances in all three categories of net assets for both the Business-type Activities and Governmental Activities.





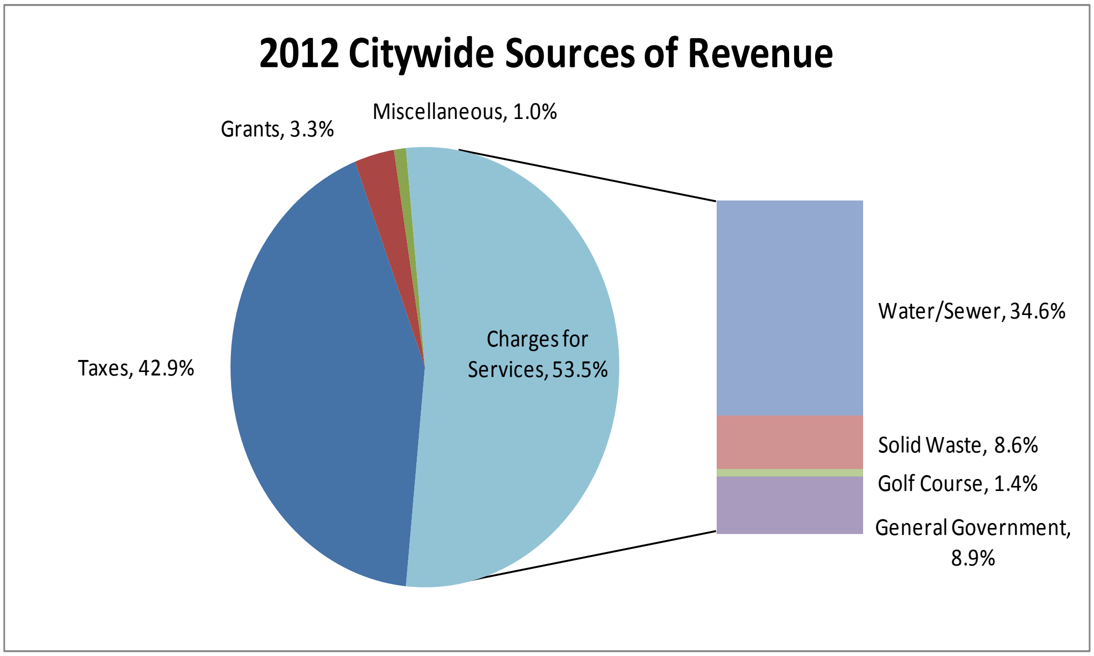
Statement of Activities

As discussed earlier, the Statement of Net Postition provides a measure of the financial health of an entity at a specific date in time. The Statement of Activities provides details on how net assets changed from the beginning of the year to the end of the year and whether net assets increased or decreased. Therefore the Statement of Activities provides information as to whether the City as a whole is better off financially by year end as illustrated in the following table.

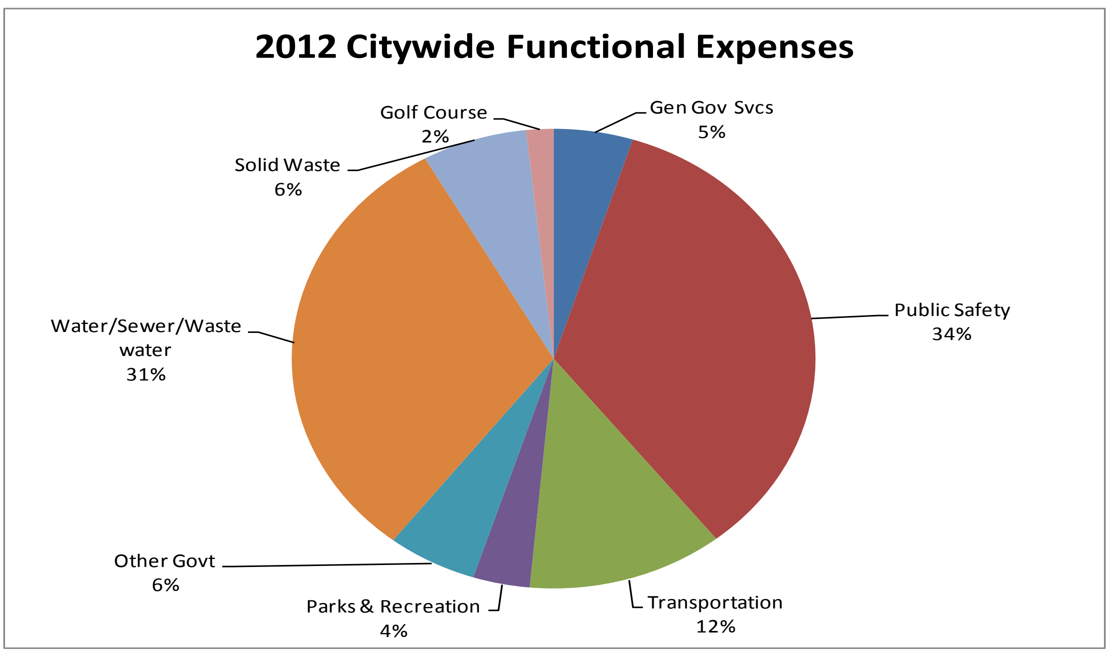
Figure 2: Condensed Statement of Activities
For Year Ended December 31, 2012
(in thousands)

	GOVERNMENTAL ACTIVITIES		BUSINESS-TYPE ACTIVITIES		TOTAL	
	2012	**2011**	**2012**	**2011**	**2012**	**2011**
Revenues						
Program Revenue:						
Charges for Services	$ 6,252	$ 6,603	$ 31,321	$ 28,861	$ 37,573	$ 35,465
Operating Grants and Contributions	1,661	1,748	-	-	1,661	1,748
Capital Grants and Contributions	-	(2)	680	326	680	323
General Revenues:						
Property Taxes	15,424	15,305	-	-	15,424	15,305
Sales Taxes	8,812	8,423	-	-	8,812	8,423
Other Taxes	5,887	5,438	-	-	5,887	5,438
Interest and Investment Earnings	93	84	114	215	207	299
Total Revenue	38,129	37,599	32,115	29,403	70,244	67,001
Program Expenses						
Governmental Activities						
Judicial	1,362	1,285	-	-	1,362	1,285
General Government	1,949	2,136	-	-	1,949	2,136
Public Safety	23,179	23,681	-	-	23,179	23,681
Physical Environment	984	1,053	-	-	984	1,053
Transportation	8,200	5,749	-	-	8,200	5,749
Economic Environment	1,831	1,677	-	-	1,831	1,677
Health	16	14	-	-	16	14
Culture & Recreation	2,371	2,370	-	-	2,371	2,370
Interest on Long-term Debt	909	868	-	-	909	868
Business-Type Activities						
Water/Sewer	-	-	21,096	20,368	21,096	20,368
Garbage & Solid Waste	-	-	4,387	4,055	4,387	4,055
Golf Course	-	-	1,138	1,167	1,138	1,167
Total Expenses	40,800	38,834	26,622	25,589	67,423	64,424
Increase in Net Position Before Transfers	(2,672)	(1,235)	5,494	3,813	2,822	2,578
Transfers	2,837	2,989	(2,837)	(2,989)	-	-
Increase in Net Position	166	1,755	2,656	824	2,822	2,578
Net Position - Beginning of Year	145,513	143,759	128,702	127,839	274,216	271,598
Prior Period Adjustment	-	-	-	40	-	40
Net Position - End of Year	$ 145,679	$ 145,513	$ 131,359	$ 128,702	$ 277,038	$ 274,216

As shown in the chart below, charges for services made up 53% of the total revenue received by the city as a whole in 2012. Forty-three percent of the revenue sources were made up of taxes. Of the 43%, 51% is from property taxes, 29% from sales taxes, and the remaining from business and excise taxes.



The following chart compares the functional expenses of the City. Public Safety and the Water/Sewer Utility Fund make up two-thirds of the total City expenses.

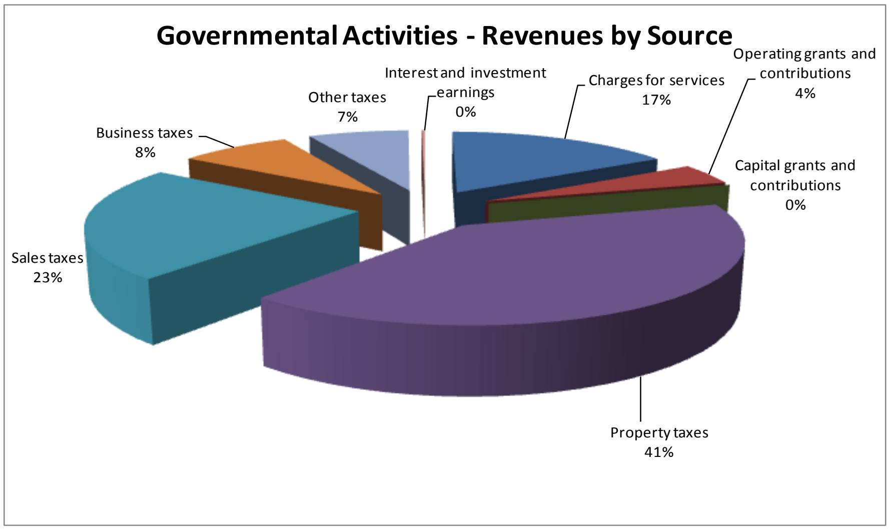


GOVERNMENTAL ACTIVITIES ANALYSIS

As shown in the Statement of Activities, the total cost of all governmental activities in 2012 was $ 40.8 million. Of this amount $ 7.9 million was paid 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 $ 32.9 million was the cost of governmental activity services paid primarily by city taxpayers.

Revenues

Total governmental activity revenue (excluding transfers) increased by $ .5 million or 1.4%. As the chart below depicts, the majority of governmental activity revenue, 79%, is from taxes. Combined taxes were up $ .9 million, or 3.3% from 2011.



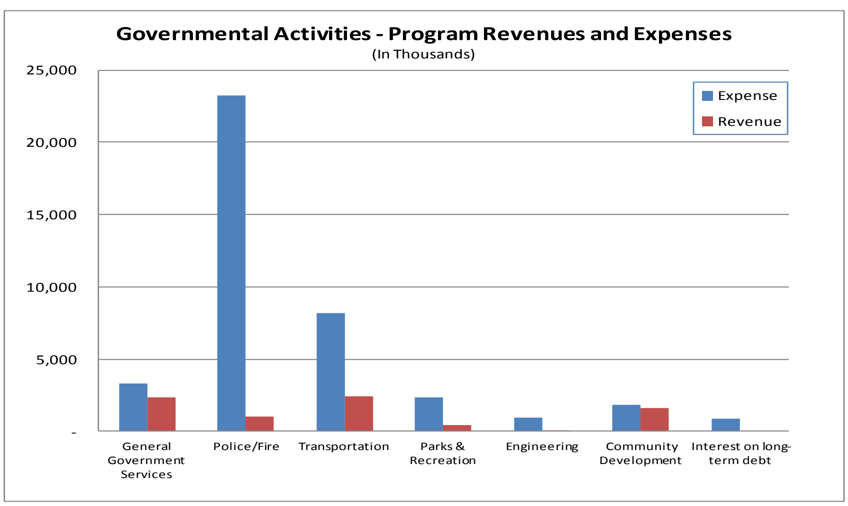
Sales tax increased by $ .4 million or 4.6% from 2011 demonstrating signs of the economy stabilizing. Other taxes increased by $ .4 million or 8.3% from 2011. This category includes utility taxes assessed on utilities, such as telephone, electric and natural gas for services sold within the city limits. The increase in utility tax is the result of rate increases imposed by the utility companies. Property taxes increased by $ .1 million or .8%. A $ .3 million decrease in Transportation Mitigation fees which are associated with the slow construction market offset the $ .9 million increase in taxes.

Expenses

Total governmental activity expenses were up $ 2.0 million or 5.1%, compared to 2011. The largest increase was in transportation up $ 2.4 million.

The transportation increase is due to payments being made to Washington State Department of Transportation for work performed on a joint project to increase overall accessibility to the south end of the City. Improving access to the south end of the city will encourage economic growth in that area. This increase was offset by a $ .5 million decrease in public safety due to a decrease in the annual payment to the Fire District for fire services.

The chart below illustrates the cost of each of the City's major governmental activities along with each activity's generated revenues (charges for services, grants, and contributions specifically related to that activity). The difference is the amount that each program relies on taxes for funding.



BUSINESS-TYPE ACTIVITIES ANALYSIS

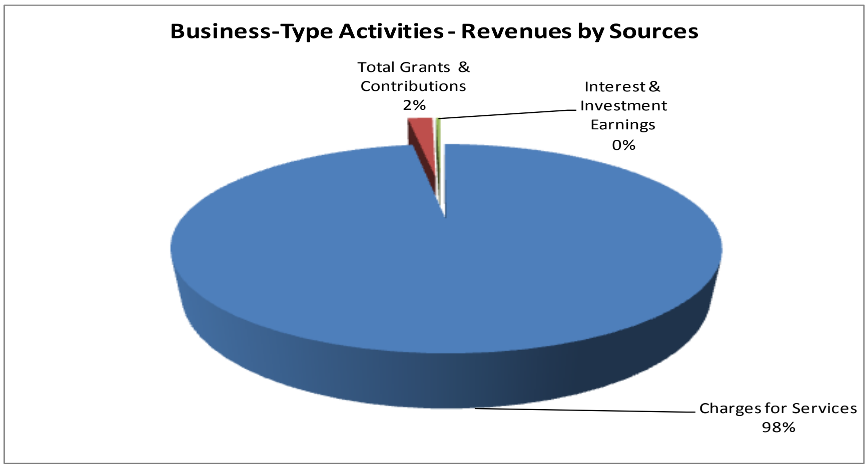
Total expenses of business-type activities in 2012 were $ 26.6 million. Program revenue covered $ 32.1 million, with $ 2.8 million in transfers resulting in a net gain of $ 2.7 million.

Revenues

Total revenues were up $ 2.7 million or 9.2% from the prior year. As shown in the chart below, the majority of business-type activity revenue is from charges for services. Charges for services increased $ 2.4 million from 2011, due to the annual rate increase on water/sewer/surface water fees, the addition of approximately 900 garbage customers in previously annexed areas and increased connection fees.

Capital grants and contributions are made up of infrastructure constructed by the developer and then turned over to the City. Business-type capital contributions were up $ .4 million or 108% from 2011 the result of a slight uptick in the economy.

In 2012, interest earnings on investments were down $ .1 million or 47% due to historically low interest rates.



Expenses

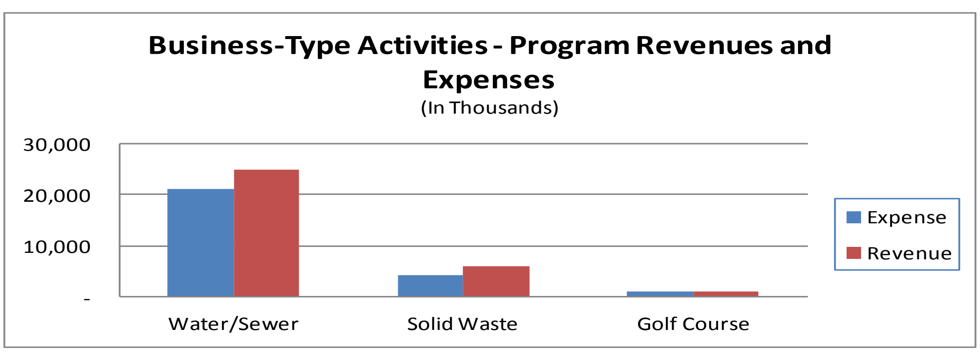
Total business-type expenses were up $ 1.0 million or 4.0% from 2011.

Water/Sewer activity expenses were up $ .7 million or 3.6% a result of more construction projects being done in 2012.

In 2012, the Solid Waste activity expenses increased by $ .3 million or 8.2% from 2011. The increase was associated with an increase in taxes due to higher revenues, and an increase in the annual Fleet Maintenance allocation due to the reinstatement of the vehicle replacement program.

The golf course expenses decreased by $ 28,000 or 2.4%. Management continues to work hard to reduce expenses in an effort to reduce and/or eliminate the need for subsistence from the General Fund.

The chart below depicts the expense of each of the City's business-type programs along with each program's generated revenues. As shown, water/sewer and solid waste generated enough program revenue (primarily user fees) to cover the operating costs of providing services while golf did not. These activities are discussed in more detail in the Business-type Fund Analysis section.



FUND-LEVEL FINANCIAL ANALYSIS

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

Governmental Funds

The focus of the City's governmental funds is to provide information on near-term revenues/financial resources and expenditures. This information helps determine the City's financing requirements in the near future. In particular, unassigned fund balance measures the City's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year the City's governmental funds reported a combined ending fund deficit balance of $ 4.4 million a decrease of $ 7.1 million from 2011. The deficit fund balance is due to the short-term financing that the City issued to pay for the construction of two major street projects, the 156th Street Interstate 5 over pass, and the SR9/SR92 break in access project. Once permanent financing has been secured the deficit balance will be eliminated.

Revenues for the governmental funds in 2012 were $ 43.0 million up $ 1.1 million or 2.6% from 2011 and expenditures were $ 50.4 million up $ 5.0 million.

General Fund - The general fund is the main operating fund of the City through which all receipts and payments of ordinary City operations are processed, unless legally required to be accounted for in another fund. Taxes are the major revenue source. At the end of 2012, the fund balance of the General Fund was $ 8.8 million up $ 3.8 million from 2011. As a measure of fund's liquidity, the ending fund balance is 26% of the fund's 2012 expenditures, an increase of 11% from the previous year. As of December 31, 2012, total revenue was $ 38.7 million an increase of $ 1.4 million or 3.8% and total expenditures were $ 33.5 million an increase of $ .3 million or .9%, resulting in an increase to the ending fund balance of $ 3.8 million. Of the $ 8.8 fund balance, $ 8.8 million is unassigned which is available for discretionary spending. Even though the economy is starting to show signs of recovery, the City remains committed to managing costs and balancing current year revenue and expenses to ensure the financial security of the City.

Streets Capital Improvement Fund – The Street Capital Improvement Fund accounts for the construction of transportation within the city, such as roads, streets, park and rides, and bridges. The fund reported a decrease of $ 10.5 million in fund balance which is a result of decreasing traffic mitigation fees and $ 9.4 million of short term financing (LTGO BAN) that was drawn in 2012 which is being used to fund the construction of the 156th Street over pass and the SR9/SR92 break in access project. Once construction has been completed the City will secure long term financing through a combination of City issued bonds and LID bonds which will eliminate the deficit fund balance.

Other Governmental Funds – The City has eight other special revenue funds, three other debt service funds and one non-major construction fund. In previous years, the City chose to report both the Street Construction Fund and Park Construction Fund as major funds whether they met the major fund criteria or not. However, from here forward, only the Street Construction Fund will be reported as a major fund.

Combined, the Other Governmental Funds reported total assets of $ .8 million, total liabilities of $ .2 million and a combined fund balance of $ .6 million. This is a decrease of $ .4 million dollars from 2011. The largest decrease in fund balance of $ 1.0 million was in the City Street Fund, due to declining revenues.

Revenue for the Other Government Funds in 2012 was $ 3.3 million up $ .2 million from 2012. The increase in real estate excise taxes and state shared motor vehicle fuel taxes were offset by a reduction in property taxes receipted into the debt service funds. The voter approved general obligation bonds were paid off in 2011.

Expenditures for the Other Government Funds in 2012 were $ 5.3 million an increase of $ .2 million. The increase of $ .4 million in the City Street department spent on council approved sidewalk projects was offset by $ .2 million decrease in the debt service funds the result of one of the voted general obligation debt issues being paid off in 2011.

Proprietary Funds

The City's proprietary fund statements are similar regarding the information found in the government-wide financial statements, but more detail is provided due to the assortment of activities. These funds include the Waterworks Utility and Solid Waste as the major funds for the purpose of this report. As a result, all statements related to the enterprise funds are presented at the entity-wide level. The Cedarcrest Golf Course is the only enterprise fund that is not considered a major fund. The City does have Internal Service funds which are reported in the fund statements.

Waterworks Utility Fund – The Waterworks Utility Fund accounts for the operations, maintenance, and construction of activities related to the supplying of water, sewer, and storm drainage/surface water services to the community. The fund reported total assets of $ 194.6 million, total liabilities of $65.4 million, and net assets of $ 129.2 million, an increase of $ 1.3 million or 1.0% increase from the prior year.

Solid Waste Fund – The Solid Waste Fund accounts for the operations and maintenance of providing solid waste services to citizens within the city limits. The fund reported total assets of $ 4.6 million, total liabilities of $ 28,465 and net assets of $ 4.6 million, an increase of $ .8 million or 22% from the prior year.

Other Enterprise Funds – The City's other enterprise fund includes only one activity and that is the Cedarcrest Golf Course. The fund reported total assets of $ 2.1 million, total liabilities of $ 3.6 million, and net assets of a $ 1.5 million deficit a decrease in the deficit value of $ .6 million. The improvement in the fund balance was due to the partial payoff of the interfund loan between the Golf Course and the Waterworks Utilities reducing the liabilities in the fund. The remaining outstanding balance will be paid off in 2013.

General Fund Budgetary Highlights

The annual budget is developed to guide the City's financial direction. It outlines how financial resources will be managed during the fiscal year, while allowing for reallocation of resources. Major groups that participate in the budget process are the Mayor, City Council, Chief Administrative Officer, Department directors, Managers, and interested Marysville citizens.

Appropriation of operating funds are reviewed and amended as needed by the City Council. During 2012 the budget was amended three times. The final General Fund expenditure budget was $ 125,021 higher from the original budget. The amendment was to account for increased payroll taxes where notification was received after the adoption of the original budget, and emergency repairs to the roof of the court house and the hot water tank at the jail. Revenues were amended to reflect the reimbursement received from the insurance company for the roof repairs and increased tax revenue.

Actual results compared to final budget

General Fund revenues exceeded the amended budget by $ 2.9 million or 8.0%. All revenues in the General Fund came in over budget, the largest being Taxes which came in $1.9 million over budget

General Fund expenditures were under the final amended budget by $ .5 million or 1.5%. The most significant under run of $ 299,203 in General Government is due to tight budget controls in all areas of the general government.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The City's investment in capital assets, including construction in progress, for its governmental and business-type activities as of December 31, 2012 amounts to $ 332 million (net of accumulated depreciation) an increase $ 2.3 million from 2011.

Figure 3 : Capital Assets at Year End, Net of Depreciation
(in thousands)

	GOVERNMENTAL ACTIVITIES		BUSINESS-TYPE ACTIVITIES		TOTAL	
	2012	2011	2012	2011	2012	2011
Land	$ 26,064	$ 25,738	$ 11,828	$ 11,798	$ 37,892	$ 37,536
Buildings	9,302	9,547	6,194	6,361	15,497	15,908
Infrastructure	90,646	77,797	-	-	90,646	77,797
Improvements other than buildings	24,189	24,457	139,571	138,513	163,760	162,971
Machinery and Equipment	3,454	3,545	1,443	1,101	4,896	4,647
Construction in Progress	14,204	20,882	5,746	10,610	19,950	31,492
	$ 167,860	**$ 161,967**	**$ 164,781**	**$ 168,383**	**$ 332,641**	**$ 330,351**

Changes to major capital assets during 2012 included the following:

- Property Purchases for Street Projects - $ .3M
- Annual contribution to the City's water/sewer infrastructure from developers - $ .7M
- Fleet equipment and vehicle replacements - $ .4

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

Long Term Debt

At the end of the fiscal year, the City had total bonded debt outstanding of $69.5 million and other long-term debt of $15.3 million. The total debt excluding compensated absences and deferred amounts is classified as follows:

Figure 4: Long-Term Debt
(in thousands)

	GOVERNMENTAL ACTIVITIES		BUSINESS-TYPE ACTIVITIES		TOTAL	
	2012	2011	2012	2011	2012	2011
General Obligation Debt	$ 18,870	$ 19,555	$ 2,259	$ 2,500	$ 21,129	$ 22,055
Revenue Bonds	-	-	48,355	48,955	48,355	48,955
Governmental Loans	740	993	-	-	740	993
Public Work Trust Fund Loans	-	-	14,530	16,024	14,530	16,024
Total Long-Term Debt	**$ 19,610**	**$ 20,548**	**$ 65,144**	**$ 67,479**	**$ 84,754**	**$ 88,026**

On October 5, 2010, Moody's Investors Service changed the City's limited tax general obligation bond rating from Aa3 to A and an insured rating of Aa3.

On April 23, 2010, Moody's Investors Service changed the City's Municipal Scale Rating to a Global Scale Rating. As a result, the City's underlying limited tax general obligation bond rating is now Aa3 and the City's underlying water and sewer revenue bond rating is A1.

Moody's rating for the City of Marysville are now as follow:

Limited Tax GO Bonds	Aa3 (previously A2)
Water/Sewer Revenue Bonds	A1 (previously A3)

S&P published an underlying rating of A+ for the 2005 Revenue Bonds at the time of issuance.

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

The City's assessed valuation for determining debt capacity available is $ 4.8 billion and the total amount of debt the City may issue is $ 337 million. More details on the City's debt capacity can be found in schedule 10 of the supplemental schedules.

Additional information on 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

The City of Marysville Council voted not to increase the regular property tax levy rate by 1% allowed under initiative 747 in 2013. The levy rate for 2013 is $2.9056 per $1,000 of assessed valuation, an increase of 8.0% from prior year of $2.6899. The increase in the levy rate is due to the decrease in assessed values. The EMS levy remained capped at $.50/1,000 of assessed value.

Total General Fund revenues for 2013 were estimated to increase by $ 2.3 million from the original 2012 budget before transfers and the total General Fund expenditures were estimated to increase by $ .9 million from the original 2012 budget before transfers. For 2013, the City continues to recover from the financial challenges in recent years, but we feel that we are finally turning a corner. We are starting to reach our goal of re-building funding again for some of the core government services that were put on hold due to the unstable economy. However knowing that we still face significant economic uncertainty, we approach the new year with caution, conservative in our financial outlook. We will continue to monitor revenues as well as expenses on a monthly basis and take corrective actions as needed.

Requests for Information

The City's financial statements are designed to provide users with a general overview of the City's finances as well as to demonstrate the City's accountability to its citizens, investors, creditors, and other customers. If you have a question about the report, please contact the City of Marysville Finance Director, 1049 State Avenue, Marysville, Washington, 98270, (360) 363-8000.

CITY OF MARYSVILLE
STATEMENT OF NET POSITION
DECEMBER 31, 2012

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
ASSETS			
Cash & cash equivalents	5,076,196	8,461,635	13,537,831
Investments	5,726,484	10,719,516	16,446,000
Receivables (net)	1,753,677	5,243,127	6,996,804
Internal Balances	943,251	(943,251)	-
Inventories	109,580	113,353	222,933
Restricted Cash & Investments:			
Cash & Cash Equivalents	-	5,450,137	5,450,137
Investments	-	5,529,858	5,529,858
Deferred Charges & Other Assets			
Special Assessments Receviable	-	392	392
Other deferred charges	-	156,458	156,458
Investment in joint venture	429,276	-	429,276
Capital Assets			
Land	26,064,252	11,827,652	37,891,904
Depreciable assets (net)	127,591,218	147,207,593	274,798,811
Construction in progress	14,204,259	5,745,994	19,950,253
TOTAL ASSETS	**181,898,193**	**199,512,464**	**381,410,657**
LIABILITIES			
Accounts payable and accrued expenses	95,916	664,165	760,081
Unearned revenue	-	25,000	25,000
Other current liabilities	14,503,627	157,693	14,661,320
Non-Current Liabilities (see Note 12)			
Due within one year	1,823,796	3,788,126	5,611,922
Due in more than one year	19,796,123	63,518,803	83,314,926
TOTAL LIABILITIES	**36,219,462**	**68,153,787**	**104,373,249**
NET POSITION			
Invested in capital assets, net of related debt (note 17)	148,249,723	106,815,932	255,065,655
Restricted for:			
Debt service	69,854	5,529,858	5,599,712
Unrestricted	(2,640,846)	19,012,887	16,372,041
TOTAL NET POSITION	**145,678,731**	**131,358,677**	**277,037,408**

The accompanying notes are an integral part of this statement

CITY OF MARYSVILLE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2012

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
			Grants & Contributions				
FUNCTIONS/PROGRAMS	**Expenses**	**Charges for Services**	**Operating**	**Capital**	**Governmental Activities**	**Business-type Activities**	**Total**
Governmental Activities:							
Judicial	1,361,713	868,678	45,264	-	(447,771)	-	(447,771)
General Government	1,948,738	1,453,997	-	-	(494,741)	-	(494,741)
Public Safety	23,179,163	918,100	124,791	-	(22,136,272)	-	(22,136,272)
Physical Environment	984,599	1,000	-	-	(983,599)	-	(983,599)
Transportation	8,200,060	981,799	1,470,813	-	(5,747,448)	-	(5,747,448)
Economic Environment	1,831,180	1,632,994	-	-	(198,186)	-	(198,186)
Health	15,784	-	-	-	(15,784)	-	(15,784)
Culture & Recreation	2,370,633	395,835	20,396	-	(1,954,402)	-	(1,954,402)
Interest on long-term debt	909,150	-	-	-	(909,150)	-	(909,150)
Total Governmental	**40,801,020**	**6,252,403**	**1,661,264**	**-**	**(32,887,353)**	**-**	**(32,887,353)**
Business-type Activities:							
Water/Sewer	21,096,110	24,313,325	-	679,599	-	3,896,814	3,896,814
Solid Waste	4,386,858	6,051,999	-	-	-	1,665,141	1,665,141
Golf Course	1,138,670	955,819	-	-	-	(182,851)	(182,851)
Total Busines-Type	**26,621,638**	**31,321,143**	**-**	**679,599**	**-**	**5,379,104**	**5,379,104**
Total Government	**67,422,658**	**37,573,546**	**1,661,264**	**679,599**	**(32,887,353)**	**5,379,104**	**(27,508,249)**
General Revenues							
Property Taxes					15,423,843	-	15,423,843
Sales Taxes					8,811,666	-	8,811,666
B&O Taxes					3,091,719	-	3,091,719
Excise Taxes					1,710,375	-	1,710,375
Allocation of State Imposed Taxes					1,084,862	-	1,084,862
Investment Earnings					93,065	114,439	207,504
Transfers					2,837,308	(2,837,308)	-
Total General Revenues & Transfers					33,052,838	(2,722,869)	30,329,969
Change in Net Position					**165,485**	**2,656,235**	**2,821,720**
Net Position - Beginning					145,513,246	128,702,442	274,215,688
Prior Period Adjustment (Note 17)					-	-	-
Net Position - Ending					**145,678,731**	**131,358,677**	**277,037,408**

The accompanying notes are an integral part of this statement

CITY OF MARYSVILLE
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2012

	GENERAL FUND	STREETS CAPITAL IMPROVEMENTS	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS				
CURRENT ASSETS				
Cash & cash equivalents	$ 3,939,399	$ 514,725	$ 344,480	$ 4,798,604
Investments	4,911,791	25,404	437,078	5,374,273
Receivables (net)	1,738,526	-	15,151	1,753,677
Total Current Assets	10,589,716	540,129	796,709	11,926,554
TOTAL ASSETS	**$ 10,589,716**	**$ 540,129**	**$ 796,709**	**$ 11,926,554**
LIABILITIES AND FUND BALANCES				
Accounts payable and accrued exp.	$ 14,346	$ 75,424	$ 3,619	$ 93,389
Unearned revenue	1,687,512	-	11,041	1,698,553
Deposits payable	82,762	3,787	215,478	302,027
Other current liabilities	-	14,201,600	-	14,201,600
TOTAL LIABILITIES	**$ 1,784,620**	**$ 14,280,811**	**$ 230,138**	**$ 16,295,569**
FUND BALANCE				
Restricted For:				
Law Enforcement	-	-	55,963	55,963
Tourism	-	-	50,312	50,312
Technology Infrastructure	-	-	26,605	26,605
REET	-	-	388,257	388,257
Committed to:				
Law Enforcement	-	-	118,221	118,221
Community Center	-	-	15,475	15,475
Assigned to:				
Parks Construction Projects	-	-	56,869	56,869
Debt Service	-	-	69,854	69,854
Unassigned	8,805,096	(13,740,682)	(214,985)	(5,150,571)
TOTAL FUND BALANCES	8,805,096	(13,740,682)	566,571	(4,369,015)
TOTAL LIABILITIES AND FUND BALANCES	**$ 10,589,716**	**$ 540,129**	**$ 796,709**	**$ 11,926,554**

The accompanying notes are an integral part of this statement

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION DECEMBER 31, 2012

Total governmental fund balance		$ (4,369,015)
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not current period financial resources and therefore are not reported in the funds.		164,550,509
These assets consist of:		
Land	$ 26,064,252	
Depreciable Assets (including Infrastructure)	147,209,203	
Construction in Progress	14,204,259	
Less: Accumulated Depreciation	(22,927,205)	
The investment in joint ventures is not reported at the fund financial reporting level but is reported on the statement of net position.		429,276
Other long term assets used in governmental activities are not current period financial resources and therefore are not reported in the funds		1,698,553
Property Taxes	226,556	
Special Assessments	26,040	
Court Receivable	1,445,957	
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds		(21,542,013)
Compensated Absences	(1,466,290)	
General Obligation/Special Assessment Bonds	(19,610,006)	
Net Pension Obligation	(465,717)	
Internal service funds are used by management to charge the costs of certain activities to individual funds. These assets and liabilities are included in governmental activities in the statement of net position.		4,911,421
Internal service funds-total fund equity	$ 3,968,170	
Add back: amount allocated to internal balances - business-type activities	943,251	
Net position of governmental activities		$ 145,678,731

The accompanying notes are an integral part of this statement

CITY OF MARYSVILLE
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012

	GENERAL FUND	STREETS CAPITAL IMPROVEMENTS	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES				
Taxes	$ 29,998,711	$ -	$ 1,451,460	$ 31,450,171
Licenses & Permits	1,608,624	-	101,539	1,710,163
Intergovernmental	2,002,141	88,113	1,417,700	3,507,954
Charges for Services	4,075,031	908,595	153,119	5,136,745
Fines & Forfeitures	632,421	-	28,682	661,103
Investment Earnings	84,656	1,064	5,410	91,130
Rents & Leases	157,556	-	29,749	187,305
Miscellaneous Revenues	164,414	6,693	121,643	292,750
Total Revenues	**38,723,554**	**1,004,465**	**3,309,302**	**43,037,321**
EXPENDITURES				
Current:				
Judicial	1,361,760	-	-	1,361,760
General Government	4,134,899	-	127,672	4,262,571
Public Safety	23,175,388	-	90,084	23,265,472
Physical Environment	1,010,942	-	-	1,010,942
Transportation	-	3,026,311	3,193,618	6,219,929
Health & Human Services	15,784	-	-	15,784
Economic Environment	1,747,821	-	89,648	1,837,469
Culture & Recreation	2,068,811	-	63,237	2,132,048
Capital Outlay				
Public safety	14,427		-	14,427
Transportation	-	8,443,091	-	8,443,091
Debt Service				
Principal	-	-	937,635	937,635
Interest	-	75,533	833,617	909,150
Total Expenditures	**33,529,832**	**11,544,935**	**5,335,511**	**50,410,278**
EXCESS (DEFICIENCY) OF REVENUE OVER (UNDER) EXPENDITURES	5,193,722	(10,540,470)	(2,026,209)	(7,372,957)
OTHER FINANCING SOURCES (USES)				
Transfers in	737,630	965,000	2,693,672	4,396,302
Transfers out	(2,130,880)	(937,327)	(1,062,910)	(4,131,117)
Total other financing sources (uses)	**(1,393,250)**	**27,673**	**1,630,762**	**265,185**
Net change in fund balances	3,800,472	(10,512,797)	(395,447)	(7,107,772)
Fund balances--beginning	5,004,624	(3,227,885)	962,018	2,738,757
FUND BALANCES - ENDING	**$ 8,805,096**	**$ (13,740,682)**	**$ 566,571**	**$ (4,369,015)**

The accompanying notes are an integral part of this statement

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2012**

Net changes in fund balances for governmental funds			$ (7,107,772)
Amounts reported for governmental activities in the statement of activities are different because:			
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets are allocated over their estimated useful life as depreciation expense. This is the amount by which capital outlays plus adjustments exceeded depreciation in the current period.			5,980,002
This is comprised of:			
Capital Outlays		$ 8,457,518	
Depreciation		(2,471,578)	
NBV of retired assets		(5,938)	
		-	
Governmental funds do not report the change in the investment in the joint venture the change is reported on the statement of activity			22,510
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.			
This is comprised of:			
Property Taxes			64,436
Special Assessment			12,457
Court Receivables			(1,723)
Repayment of long-term debt is an expenditure in the governmental funds, yet the repayment reduces long-term liabilities in the statement of net assets. This is the amount by which repayments exceeded proceeds.			
This is comprised of:			
Debt Retired			937,635
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.			
This is comprised of:			
Accrued Compensated Absences			221,749
Net Pension Obligation			(47,763)
Internal service funds are used by management to charge the cost of equipment, maintenance of the facitlities and computer costs to individual funds. The net revenue (expense) of this internal service fund is reported with governmental activities			83,954
This is comprised of:			
Interest revenue allocated from internal service funds to governmental activities	$ 1,935		
Net expense allocated from internal service funds to governmental activities	(13,100)		
Transfer Out	95,119		
Change in net position of governmental activities			**$ 165,485**

The accompanying notes are an integral part of this statement

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL GENERAL FUND FOR THE YEAR ENDED DECEMBER 31, 2012

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	WITH FINAL BUDGET - POSITIVE (NEGATIVE)
REVENUES				
Taxes	$ 27,489,254	$ 28,058,984	$ 29,998,711	$ 1,939,727
Licenses & Permits	1,350,174	1,350,174	1,608,624	258,450
Intergovernmental	1,719,299	1,719,299	2,002,141	282,842
Charges for Services	3,920,614	3,920,614	4,075,031	154,417
Fines & Forfeitures	543,960	543,960	632,421	88,461
Investment Earnings	64,000	64,000	84,656	20,656
Rents & Leases	105,000	105,000	157,556	52,556
Miscellaneous Revenues	35,400	106,802	164,414	57,612
Total Revenues	**35,227,701**	**35,868,833**	**38,723,554**	**2,854,721**
EXPENDITURES				
Current:				
Judicial	1,303,756	1,382,600	1,361,760	20,840
General Government	4,430,312	4,434,102	4,134,899	299,203
Public Safety	23,119,776	23,156,538	23,175,388	(18,850)
Physical Environ	1,104,316	1,105,622	1,010,942	94,680
Health & Human Services	15,100	15,100	15,784	(684)
Economic Environment	1,799,653	1,801,890	1,747,821	54,069
Culture & Recreation	2,140,465	2,142,547	2,068,811	73,736
Capital Outlay				
General government	1,100	1,100	-	1,100
Public safety	-	-	14,427	(14,427)
Total Expenditures	**33,914,478**	**34,039,499**	**33,529,832**	**509,667**
EXCESS (DEFICIENCY) OF REVENUE OVER (UNDER) EXPENDITURES	1,313,223	1,829,334	5,193,722	3,364,388
OTHER FINANCING SOURCES (USES)				
Transfers in	786,842	786,842	737,630	(49,212)
Transfers out	(1,630,178)	(2,662,912)	(2,130,880)	532,032
Total other financing sources (uses)	**(843,336)**	**(1,876,070)**	**(1,393,250)**	**482,820**
Net change in fund balances	469,887	(46,736)	3,800,472	3,847,208
Fund balances--beginning	3,349,815	3,349,815	5,004,624	1,654,809
FUND BALANCES - ENDING	**$ 3,819,702**	**$ 3,303,079**	**$ 8,805,096**	**$ 5,502,017**

The accompanying notes are an integral part of this statement

STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2012

	BUSINESS TYPE ACTIVITIES				
	WATERWORKS UTILITY	SOLID WASTE	NONMAJOR ENTERPRISE GOLF	TOTAL ENTERPRISE FUNDS	GOVERNMENTAL ACTIVITIES-INTERNAL SERVICE FUNDS
ASSETS					
CURRENT ASSETS:					
Cash & cash equivalents	$ 6,943,570	$ 1,516,465	$ 1,600	$ 8,461,635	$ 277,592
Investments	8,795,407	1,924,109	-	10,719,516	352,211
Receivables (net)	4,098,679	1,144,127	321	5,243,127	-
Due from other funds	841,000	-	-	841,000	-
Inventories	74,826	-	38,527	113,353	109,580
Total Current Assets	20,753,482	4,584,701	40,448	25,378,631	739,383
NONCURRENT ASSETS					
Restricted Cash & Investments:					
Cash & Cash Equivalents	5,450,137	-	-	5,450,137	-
Investments	5,529,858	-	-	5,529,858	-
Deferred Charges & Other Assets					
Deferred charges	392	-	-	392	-
Unamortized debt issue costs	147,863	-	8,595	156,458	-
Capital Assets					
Land	11,009,640	-	818,012	11,827,652	-
Depreciable assets (net)	145,969,793	-	1,237,800	147,207,593	3,309,220
Construction in progress	5,745,994	-	-	5,745,994	-
Total Noncurrent Assets	173,853,677	-	2,064,407	175,918,084	3,309,220
TOTAL ASSETS	**$ 194,607,159**	**$ 4,584,701**	**$ 2,104,855**	**$ 201,296,715**	**$ 4,048,603**
LIABILITIES					
CURRENT LIABILITIES					
Accounts payable and accrued exp.	$ 35,749	$ -	$ -	$ 35,749	$ 2,527
Due to other funds	-	-	841,000	841,000	-
Accrued interest payable	622,055	-	6,361	628,416	-
Compensated absences	113,786	14,232	11,415	139,433	38,953
Bonds, notes, loans payable	3,390,757	-	257,936	3,648,693	-
Unearned revenue	25,000	-	-	25,000	-
Deposits payable	32,150	-	3,500	35,650	-
Other current liabilities	53,879	-	68,164	122,043	-
Total Current Liabilities	4,273,376	14,232	1,188,376	5,475,984	41,480
NONCURRENT LIABILITIES:					
Bonds, notes, loans payable	59,494,210	-	2,000,621	61,494,831	-
Unamortized debt premiums/discount	1,486,811	-	397,727	1,884,538	-
Compensated absences	113,785	14,233	11,416	139,434	38,953
Total Noncurrent Liabilities	61,094,806	14,233	2,409,764	63,518,803	38,953
TOTAL LIABILITIES	**65,368,182**	**28,465**	**3,598,140**	**68,994,787**	**80,433**
NET POSITION					
Invested in capital assets, net of related debt	106,629,545	-	186,387	106,815,932	3,309,220
Restricted for debt service	5,529,858	-	-	5,529,858	-
Unrestricted	17,079,574	4,556,236	(1,679,672)	19,956,138	658,950
TOTAL NET POSITION	**$ 129,238,977**	**$ 4,556,236**	**$ (1,493,285)**	**$ 132,301,928**	**$ 3,968,170**

The net effect of activities allocated from internal service funds is presented as an internal balance on the statement of net assets.	(943,251)
Net assets of business-type activities	**$ 131,358,677**

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, 2012

	BUSINESS TYPE ACTIVITIES				
	WATERWORKS UTILITY	SOLID WASTE	NONMAJOR ENTERPRISE GOLF	TOTAL ENTERPRISE FUNDS	GOVERNMENTAL ACTIVITIES- INTERNAL SERVICE FUNDS
OPERATING REVENUES:					
Charges for Services:					
Water/Sewer	$ 22,203,291	$ -	$ -	$ 22,203,291	$ -
Golf	-	-	923,612	923,612	-
Garbage & Solid Waste	-	6,052,187	-	6,052,187	-
Other Services	-	-	-	-	2,250,704
Total Operating Revenues	**22,203,291**	**6,052,187**	**923,612**	**29,179,090**	**2,250,704**
OPERATING EXPENSES:					
Maintenance & operations	11,630,807	4,120,326	855,067	16,606,200	1,749,619
Taxes	2,380,881	1,032,399	4,477	3,417,757	-
Depreciation	5,816,465	-	224,288	6,040,753	536,789
Total Operating Expenses	**19,828,153**	**5,152,725**	**1,083,832**	**26,064,710**	**2,286,408**
Operating income (loss)	2,375,138	899,462	(160,220)	3,114,380	(35,704)
NONOPERATING REVENUES (EXPENSES)					
Investment earnings	105,217	9,212	10	114,439	1,935
Miscellaneous nonoperating revenue	2,110,034	(188)	111,752	2,221,598	23,440
Interest expense	(2,353,981)	-	(134,262)	(2,488,243)	-
Gain (loss) on disposition of assets	-	-	-	-	(5,789)
Miscellaneous nonoperating expenses	(620,281)	-	-	(620,281)	-
Total Non-Operating Revenues (Expenses)	**(759,011)**	**9,024**	**(22,500)**	**(772,487)**	**19,586**
Income (Loss) Before Capital Contributions & Transfers	1,616,127	908,486	(182,720)	2,341,893	(16,118)
Capital contributions	679,599	-	-	679,599	-
Transfers in	97,438	3,157	758,505	859,100	95,119
Transfers (out)	(1,133,890)	(85,514)	-	(1,219,404)	-
	(356,853)	(82,357)	758,505	319,295	95,119
CHANGE IN NET POSITION	1,259,274	826,129	575,785	2,661,188	79,001
NET POSITION-BEGINNING	127,979,703	3,730,107	(2,069,070)	129,640,740	3,889,169
NET POSITION-ENDING	**$ 129,238,977**	**$ 4,556,236**	**$ (1,493,285)**	**$ 132,301,928**	**$ 3,968,170**

Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds:	(4,953)
Change in net position of business-type activities	$ 2,656,235

The accompanying notes are an integral part of this statement

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012

	BUSINESS-TYPE ACTIVITIES				GOVERNMENTAL ACTIVITIES- INTERNAL SERVICE FUNDS
	WATERWORKS UTILITY	SOLID WASTE	NONMAJOR ENTERPRISE GOLF	TOTAL	
Cash Flows From Operating Activities:					
Receipts from customers and users	$ 21,717,918	$ 5,809,740	$ 923,591	$ 28,451,249	$ 2,250,704
Payments to suppliers	(6,407,038)	(3,353,254)	(329,597)	(10,089,889)	(748,597)
Payment to employees	(5,259,474)	(773,256)	(521,158)	(6,553,888)	(1,106,049)
Payments for taxes	(2,380,881)	(1,032,399)	(4,477)	(3,417,757)	-
NET CASH PROVIDED BY OPERATING ACTIVITIES	**$ 7,670,525**	**$ 650,831**	**$ 68,359**	**$ 8,389,715**	**$ 396,058**
Cash Flows From Non-Capital Financing Activities:					
Other Receipts (Payments)	1,544,836	(188)	33,286	1,577,934	23,440
Interfund Loans Received/(Retired)	950,382	-	(483,160)	467,222	-
Transfer in from other funds	97,438	3,157	758,505	859,100	95,119
Transfer (out) to other funds	(1,133,890)	(85,514)	-	(1,219,404)	-
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	**$ 1,458,766**	**$ (82,545)**	**$ 308,631**	**$ 1,684,852**	**$ 118,559**
Cash Flows From Capital and Related Financing Activities:					
Acquisition/Construction-capital	(1,759,058)	-	-	(1,759,058)	(455,076)
Payments on debt principal	(2,093,776)	-	(242,738)	(2,336,514)	-
Payment on debt interest	(2,353,981)	-	(134,262)	(2,488,243)	-
Assessments Received	(1,219)	-	-	(1,219)	-
Other Capital sources/(uses)	(117,843)	-	-	(117,843)	-
NET CASH PROVIDED BY CAPITAL FINANCING ACTIVITIES	**$ (6,325,877)**	**$ -**	**$ (377,000)**	**$ (6,702,877)**	**$ (455,076)**
Cash Flows From Investing Activities:					
Purchase of Investments	(3,558,619)	(664,891)	-	(4,223,510)	(22,958)
Proceeds from Sale of Investments	396,826	-	-	396,826	(22,641)
Interest on Investments	105,217	9,212	10	114,439	1,935
NET CASH PROVIDED BY INVESTING ACTIVITIES	**$ (3,056,576)**	**$ (655,679)**	**$ 10**	**$ (3,712,245)**	**$ (43,664)**
Net Increase (Decrease) in Cash & Equivalents	(253,162)	(87,393)	-	(340,555)	15,877
Cash and Equivalents January 1, 2012	12,646,869	1,603,858	1,600	14,252,327	261,715
CASH AND CASH EQUIVALENTS, DECEMBER 31	**$ 12,393,707**	**$ 1,516,465**	**$ 1,600**	**$ 13,911,772**	**$ 277,592**
Current Cash and Cash Equivalents	6,943,570	1,516,465	-	8,460,035	277,592
Change and Imprest Cash	-	-	1,600	1,600	-
Restricted Cash and Cash Equivalents	5,450,137	-	-	5,450,137	-
CASH AND CASH EQUIVALENTS, DECEMBER 31	**$ 12,393,707**	**$ 1,516,465**	**$ 1,600**	**$ 13,911,772**	**$ 277,592**

Page 1 of 2

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012

	BUSINESS-TYPE ACTIVITIES				GOVERNMENTAL ACTIVITIES-
	WATERWORKS UTILITY	SOLID WASTE	NONMAJOR ENTERPRISE GOLF	TOTAL	INTERNAL SERVICE FUNDS
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:					
Operating Income (Loss)	$ 2,375,138	$ 899,462	$ (160,220)	$ 3,114,380	$ (35,704)
Adjustments to Reconcile Operating Income to Net Cash Provided by (Used in) Operating Activities					
Depreciation and Amortization	5,816,465	-	224,288	6,040,753	536,789
Changes in Assets and Liabilities:					
(Increase)/Decrease in Inventories	(4,601)	-	26	(4,575)	(109,892)
(Increase)/Decrease in Receivables	(495,163)	(242,447)	349	(737,261)	-
Increase (Decrease) in Accounts Payable	(21,314)	(6,184)	4,294	(23,204)	4,865
Increase (Decrease) in Other Current Liabilities	-	-	(378)	(378)	-
TOTAL ADJUSTMENTS	5,295,387	(248,631)	228,579	5,275,335	431,762
NET CASH PROVIDED BY OPERATING ACTIVITIES	**$ 7,670,525**	**$ 650,831**	**$ 68,359**	**$ 8,389,715**	**$ 396,058**
SCHEDULE OF NON-CASH CAPITAL AND RELATED FINANCING ACTIVITIES:					
Capital assets contributed by private developers	679,599	-	-	679,599	-
Gain (losses) on sale of capital asset (NBV)	-	-	-	-	(5,789)
Increase (decrease) in fair value of investments	(82,142)	-	-	(82,142)	-
TOTAL NON-CASH ACTIVITIES	**$ 597,457**	**$ -**	**$ -**	**$ 597,457**	**$ (5,789)**

The accompanying notes are an integral part of this statement

STATEMENT OF NET POSITION
FIDUCIARY FUNDS
DECEMBER 31, 2012

	AGENCY FUNDS
ASSETS	
Cash & cash equivalents	$ 4,025,061
Total Assets	**$ 4,025,061**
LIABILITIES	
Accounts payable and accrued expenses	$ 4,025,061
Total Liabilities	**$ 4,025,061**

The accompanying notes are an integral part of this statement

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Marysville 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 Marysville was incorporated on March 20, 1891 and operates under the laws of the State of Washington applicable to a non-charter code city with a mayor-council form of government. The accounting and reporting policies of the city conform to generally accepted accounting principles (GAAP) of local governments.

The city is a general-purpose government and provides public safety, road improvement, parks and recreation, judicial administration and general governmental services. In addition, the city owns and operates a water/sewer/surface water utility, a golf course and provides garbage collection and recycling services. The accompanying statements include all funds, agencies and boards controlled by or dependent on the city. The financial statements include as well the assets and liabilities of all funds for which the city has a custodial or trust responsibility. The financial statements do not include the financial position or results of operations of the Marysville School District, which is a separate municipal corporation.

B. Government-Wide and Fund Financial Statements

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

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

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

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary funds. The fiduciary funds presented are agency fund. These funds use the accrual basis of accounting; however, because they only report assets and liabilities they do not have a measurement focus. 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.

Property taxes, licenses, and interest associated within the current period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. 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 government 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 street capital improvement fund accounts for the design and construction of the city's infrastructure.

The city reports the following major proprietary funds:

- The waterworks utility operating fund accounts for the distribution and filtration of water, the collection and treatment of wastewater, as well as the collection and treatment of sewage, and the design and construction of all water/sewer/surface water capital projects. Also included in the waterworks utility fund are all debt service payments.
- The solid waste fund accounts for the collection of commercial and residential solid waste as well as curb side recycling program.

Additionally, the government reports the following fund types:

- Special revenue funds account for the proceeds of specific revenue sources to finance specific activities as required by law or administrative regulations.
- Debt service funds account for the accumulation of resources and the payment of general long-term debt principal and interest from governmental resources and special assessment bond principal and interest from special assessment levies when the government is obligated in some manner for the payment.
- Capital project funds account for the design and construction of city parks and recreational facilities.
- Internal service funds account for the city's fleet management, facility services and information services provided to other departments on a cost reimbursement basis.
- Agency funds are custodial in nature (assets equal liabilities) and do not measure the results of operation.

Governments have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The city has elected not to follow subsequent private-sector guidance.

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. General revenues include all taxes.

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 Waterworks Utility Fund, Solid Waste Fund, Golf Fund, and the internal service funds are charges to customers for sales and services. Operating expenses for the 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.

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

D. Budgetary Information

Scope of Budget

Annual appropriated budgets are adopted for the general fund, special revenue, debt service, and proprietary funds on a basis consistent with generally accepted accounting principles. Budgetary accounts are integrated in fund ledgers for all budgeted funds, but the financial statements include budgetary comparisons for annually budgeted governmental funds only.

Annual appropriated budgets are adopted at the fund level where expenditures may not exceed appropriations. 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 monitor expenditures for individual functions and activities by object class.

Appropriations for all funds lapse at year-end.

Amending the Budget

The City Administrative Officer 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 a simple majority. The budget was amended by ordinance three (3) times during 2012. The budget amounts shown in the financial statements and schedules are the final authorized amounts as revised during the year.

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

E. Assets, Liabilities and Net Assets or Equity

Cash and Cash Equivalents

The City of Marysville invests all short-term cash surpluses. Monies from all City funds are internally pooled for investment purposes. The interest earned from the pooled investments is prorated to individual funds at the end of each month based on the cash balance in each fund at the end of the month. The City considers all highly-liquid assets, including investment in the Washington State's Local Government Investment Pool, and short-term investments with a maturity of three months or less when purchased to be cash equivalents.

For purposes of the Statement of Cash Flows, the city considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

Investments (see note 4)

Investments are reported at fair value based on quoted market prices.

Receivables

Taxes receivable consists of property taxes, related interest and penalties. Accrued interest receivable consists of amounts earned on investments, notes, and contracts at the end of the year.

Customer accounts receivable consist of amounts owed from private individuals or organizations for goods and services including amounts owed for which billings have not been prepared. Notes and contracts receivable consists of amounts owed on open accounts from private individuals or organizations for goods and services rendered.

Amounts Due to and from Other Funds; Interfund Loans and Advances Receivable

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, amounts due to and from other funds and advances are furnished in Note 14.

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

Inventories in proprietary funds are valued by the FIFO method, which approximates the market value.

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 and debt service including current and delinquent special assessments receivable.

The restricted assets and liabilities of the business-type activities are composed of the following:

Revenue bond debt service account	$ 10,979,995

Capital Assets (see note 6)

GASB Statement No. 34 established new financial reporting standards including the reporting of infrastructure assets of the general government as capital assets. The City began prospective reporting of general infrastructure assets in January 1, 2005 and incorporated the retrospective values in 2007.

Capital assets, which include property, plant, and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than $5,000 and estimated useful life in excess of one year. Infrastructure assets are capitalized when cost equals or exceeds $300,000. Donated capital assets are recorded at estimated fair market value at the date of donation.

Capital assets purchased, constructed, or leased by a governmental fund type are recorded as expenditures in that fund at the time the related expenditures are incurred. The associated capital assets are capitalized in the Governmental Activities column on the Government Wide Statement of Net Position. Capital assets of internal service funds are reported with governmental assets.

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

All project costs are included in construction in progress in the government-wide statement of net position. At completion, capital costs are reclassified to the appropriate capital asset account. In the governmental fund financial statements, lease and contract payments are reported as expenditures.

Property, plant and equipment of the primary government, are depreciated using the straight line method over the following estimated useful lives:

ESTIMATED SERVICE LIFE

Buildings & Structures	25-50 Years
Infrastructure	13-100 Years
Improvement Other Than Buildings	5-50 Years
Machinery & Equipment	2-20 Years

Other Post-Employment Benefits (see note 7)

Lifetime full medical coverage is provided to uniformed Police and Fire personnel who became members of the Law Enforcement Officers and Fire Fighters (LEOFF) retirement system prior to October 1, 1977. A liability for the accumulated unfunded actuarially required contributions is reported in the Statement of Net Position. The actual medical costs are reported as expenditures in the year they are incurred.

Compensated Absences

Employees may accumulate up to 180 days of sick leave. However, since the city does not have a policy to pay any amounts when employees separate from service with the government, there is no liability recorded for unpaid accumulated sick leave. Sick leave pay is recorded as an expense/expenditure upon usage.

Eligible employees accumulate 10 to 25 days of vacation annually depending upon the employee's length of service, but may not accumulate more than two full years of earned accrual.

At the time of retirement or separation from the City, employees will be compensated for any unpaid accumulated vacation leave up to 240 hours.

Long-term Debt (see note 12)

Deferred/Unearned Revenues

Both governmental and proprietary funds defer revenue recognition relating to resources that have been received, but not yet earned.

Net Position and Fund Balance

Net Position are segregated into three categories on the government-wide statement of net position: 1) investment in capital assets, net of related debt; 2) restricted; and 3) unrestricted. The flow assumption of the City is to use restricted assets before unrestricted assets. Restricted assets are usually set aside in a separate fund, specifically used for the purpose of debt service or capital.

Fund balances presented in the governmental fund financial statements represent the difference between assets and liabilities reported within the government fund. Fund balance is classified into the following categories:

Non-spendable – items that cannot be spent due to form; inventories, prepaid amounts, long-term loan receivables, or amounts that must be maintained intact legally.

Spendable amounts are further segregated into categories based on the degree to which the uses of resources are constrained. When an expenditure is incurred for which restricted and unrestricted amounts are available, the City considers restricted amounts to be used first, followed by committed, then assigned, and lastly, unassigned amounts.

Restricted – amounts constrained for specific purposes imposed by external parties, such as those resulting from federal and state legislation, grant awards, bond covenants, and inter-local service agreements.

Committed – amounts constrained by City code, ordinance or resolution as adopted by City Council.

Assigned – all amounts remaining in governmental funds, other than the general fund, not classified as non-spendable, restricted or committed.

Unassigned – any remaining fund balance in the general fund not classified as non-spendable, restricted, committed or assigned. Also, the City's financial policies require a minimum of 10% of General Funds budgeted revenues (less beginning fund balance) be held in reserve. The reserves can be used for anything that council feels is necessary and therefore is reported as unassigned. Any and all expenditures from the reserve require a super majority vote by the entire City Council.

NOTE 2 – RECONCILIATION OF GOVERNMENT WIDE AND FUND FINANCIAL STATEMENTS

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

The governmental funds balance sheet includes a reconciliation between fund balance – total governmental funds and net assets-government activities as reported in the government-wide statement of net position. Certain reconciling items are a combination of transactions at net. The details are presented in the Reconciliation of Balance Sheet of Governmental funds on page 1-25.

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

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances-total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities. The details are presented in the reconciliation of Statement of Revenues, Expenditures and Changes in fund Balance on page 1-27.

NOTE 3 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

There have been no material violations of finance-related legal or contractual provisions.

Fund 101 – Streets (non-major governmental fund) is reporting a $214,985 deficit in fund balance which is a result of a revenue shortfall. The General Fund is currently subsidizing the Street fund and will continue to subsidize this fund until other revenue sources become available.

Fund 502 – Facilities Maintenance (internal service fund) is reporting an $8,067 deficit in net assets due to a lower than normal cash balance. Adjustments to the annual allocation will be made to correct the deficit.

NOTE 4 - DEPOSITS AND INVESTMENTS

Deposits

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

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, or certificates of deposit with Washington State Banks.

The Washington Local Government Investment Pool (LGIP) is unrated and 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.

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 government agencies all of which hold AAA ratings from Standard & Poor's and Aaa from Moody's Investor Services. The City does not have a specific credit risk policy.

Custodial Credit Risk is the risk that in the event of a bank failure, the City's investments may not be recovered. All City securities are held for safekeeping by US Bank. The City does not have a specific custodial credit risk policy.

Concentration of Credit Risk – Concentration of credit risk is the risk of loss attributed to the magnitude of the City's investment in a single issuer. Safety of the principal is the foremost objective of the investment program. Investments of the City shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The City does not have a specific concentration of risk policy.

As of December 31, 2012, the City had the following investments and deposits:

	Fair Value	Weighted Avg Maturity (in years)
Investments:		
FHLMC	$ 2,506,087	
FNMA	9,500,099	
FICO STRIP CPN-1	3,969,672	
FFCB	6,000,000	
Total Investments	**$ 21,975,858**	**2.91**
Deposits:		
Certificate of Deposit		
Bank of America	$ 11,565	
Deposit Account - Cascade Bank	101,212	
State Pool	2,017,968	
State Pool Bond #1	5,450,137	
Total Deposits	**$ 7,580,882**	
TOTAL INVESTMENTS & DEPOSITS	**$ 29,556,740**	

NOTE 5 - PROPERTY TAXES:

The county treasurer acts as an agent to collect property taxes levied in the county for all taxing authorities. Collections are distributed at/after the end of each month. Properties listed on the County tax rolls as of May 31 are included in the annual tax levy January 1. New construction through August 31 is included in the annual tax levy the following January 1.

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

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

The City may levy up to $3.60 per $1,000 of assessed valuation for general governmental services, subject to two limitations:

a. Washington State law in RCW 84.55.010 limits the growth of regular property taxes to 1 percent per year, after adjustments for new construction.

b. The Washington State Constitution limits the total regular property taxes to 1 percent of all assessed valuation of $10 per $1,000 of value. If the taxes of all districts exceed this amount, each is proportionately reduced until the total is at or below the 1 percent limit.

The City's regular levy for 2012 was $2.6898 per $1,000 on an assessed valuation of $4,769,475,472. 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	2.6898	$ 12,829,246
Emergency Medical Service (EMS)	.5000	2,384,738
Total City Levy	**3.1898**	**$ 15,213,984**

NOTE 6 - CAPITAL ASSETS AND DEPRECIATION

A summary of changes in governmental capital assets follows:

GOVERNMENTAL ACTIVITIES	BEGINNING BALANCE 1/01/12	ADDITIONS	DELETIONS	ENDING BALANCE 12/31/2012
Capital assets, not being depreciated:				
Land	25,738,164	326,088	-	26,064,252
Construction in progress	20,882,085	8,117,002	(14,794,828)	14,204,259
Total capital assets not being depreciated	46,620,249	8,443,090	(14,794,828)	40,268,511
Capital assets, being depreciated:				
Buildings and Structures	12,879,019	-	-	12,879,019
Improvements other than buildings	26,123,603	-	(41,519)	26,082,084
Infrastructure	92,935,979	14,794,829	-	107,730,808
Machinery and Equipment	10,134,698	469,503	(20,177)	10,584,024
	142,073,299	15,264,332	(61,696)	157,275,935
Less accumulated depreciation for:				
Buildings	(3,331,627)	(245,083)	-	(3,576,710)
Improvements other than buildings	(1,666,211)	(262,553)	35,581	(1,893,183)
Infrastructure	(15,139,139)	(1,945,459)	-	(17,084,598)
Machinery and Equipment	(6,589,342)	(555,272)	14,388	(7,130,226)
Total accumulated depreciation	(26,726,319)	(3,008,367)	49,969	(29,684,717)
Total assets being depreciated, net	115,346,980	12,255,965	(11,727)	127,591,218
Governmental activities capital assets, net	161,967,229	20,699,055	(14,806,555)	167,859,729

A summary of changes in business-type capital asset follows:

BUSINESS-TYPE ACTIVITES	BEGINNING BALANCE 01/01/12	ADDITIONS	DELETIONS	ENDING BALANCE 12/31/12
Capital assets, not being depreciated:				
Land	11,797,605	30,047	-	11,827,652
Construction in progress	10,610,038	1,914,644	(6,778,688)	5,745,994
Total capital assets not being depreciated	22,407,643	1,944,691	(6,778,688)	17,573,646
Capital assets, being depreciated:				
Buildings and Structures	9,072,491	-	-	9,072,491
Improvements other than buildings	203,343,412	6,739,734	-	210,083,146
Machinery and Equipment	3,569,866	532,920	(48,163)	4,054,623
	215,985,769	7,272,654	(48,163)	223,210,260
Less accumulated depreciation for:				
Buildings	(2,711,689)	(166,604)	-	(2,878,293)
Improvements other than buildings	(64,829,969)	(5,682,420)	-	(70,512,389)
Machinery and Equipment	(2,468,419)	(191,729)	48,163	(2,611,985)
Total accumulated depreciation	(70,010,077)	(6,040,753)	48,163	(76,002,667)
Total assets being depreciated, net	145,975,692	1,231,901	-	147,207,593
Business-type activities capital assets, net	$ 168,383,335	$ 3,176,592	$ (6,778,688)	$ 164,781,239

Depreciation

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

Governmental Activities	
General Government Services	$ 164,440
Protection of Persons & Property	56,224
Transportation	2,013,544
Culture & Recreation	237,370
Internal Service	536,789
Total Depreciation-Governmental Activities	$ 3,008,367
Business-type Activities	
Waterworks Utility	$ 5,816,465
Golf	224,288
Total Depreciation-Business-Type Activities	$ 6,040,753

Construction Commitments

As of December 31, 2012, the City had other outstanding contractual commitments, which include construction and engineering contracts for capital projects currently in progress. The City's outstanding contract obligations are summarized below:

Project	Expended To Date	Remaining Commitment
Street Construction	$ 16,406,359	$ 362,735
Utility Construction	1,438,572	516,085
Total	**$ 17,844,931**	**$ 878,820**

NOTE 7 - PENSION PLANS

Substantially all City full-time and qualifying part-time employees participate in one of the following statewide local government retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit and defined contribution retirement plans. The 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 from the Department of Retirement Systems, Communications Unit, P.O. Box 48380, Olympia, WA 98504-8380. The following disclosures are made pursuant to GASB Statement 27, *Accounting for Pensions by State and Local Government Employers* and No. 50, *Pension Disclosures, an Amendment of GASB Statements No. 25 and No. 27.*

PUBLIC EMPLOYEES' RETIREMENT SYSTEM (PERS) PLANS 1, 2 and 3

Plan Description

The Legislature established PERS in 1947. Membership in the system includes: elected officials; state employees; employees of the Supreme Appeals and Superior courts (other than judges currently in a judicial retirement system); employees of legislative committees; community and technical colleges, college and university employees not participating in national higher education retirement programs; employees of district and municipal courts; and employees of local governments. Approximately 50 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/defined contribution plan with a defined contribution component.

PERS participants 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 exercise 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 PERS Plan 3. The option must be exercised within 90 days of employment. An employee is reported in Plan 2 until a choice is made. Employees who fail to choose within 90 days default to PERS Plan 3. Notwithstanding, PERS Plan 2 and Plan 3 members may opt out of plan membership if terminally ill, with less than five years to live.

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 defined benefit plan 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 defined benefit 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 2012, 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 upon separation from PERS-covered employment.

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

Plan 1 members are eligible for retirement after 30 years of service, or at the age of 60 with five years of service, or at the age of 55 with 25 years of service. The monthly benefit is two 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

The monthly benefit is subject to a minimum for PERS Plan 1 retirees who have 25 years of service and have been retired 20 years, or who have 20 years of service and have been retired 25 years. Plan 1 members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits. If a survivor option is chosen, the benefit is further reduced. A cost-of-living allowance (COLA) is granted at age 66 based upon years of service times the COLA amount. Plan 1 members may also elect to receive an optional COLA amount that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at three 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 age of 60 consist of a temporary life annuity. The allowance 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 allowance amount is two percent of the AFC for each year of service reduced by two 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 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 members can receive credit for military service while actively serving in the military if such credit makes them eligible to retire. Members can also purchase up to 24 months of service credit lost because of an on-the-job injury.

the survivor of a PERS Plan 1 member who dies after having earned ten years of service credit has the option, upon the member's death, of either a monthly survivor benefit or the lump sum of contributions plus interest.

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 two percent of the AFC per years of service. The AFC is the monthly average of the 60 consecutive highest-paid service months. There is no cap on year 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 year 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 of age can retire under one of two provisions:

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

PERS Plan 2 retirement benefits are also actuarially reduced to reflect the choice, if made, of a survivor option. The surviving spouse or eligible child(ren) of a PERS Plan 2 member who dies after having earned ten years of service credit has the option of either a monthly benefit or a lump sum payment of the member's contributions plus interest.

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 five percent to fifteen percent of salaries, based on member choice. There are currently no requirements for employer contribution 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 investments are made in the same portfolio as that of the PERS 2/3 defined benefit plan.

For DRS' fiscal year 2012, PERS Plan 3 employee contributions were $95.2 million, and plan refunds paid out were $66.2 million.

The defined benefit portion of PERS Plan 3 provides members a monthly benefit that is one 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, 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 credit years earned in PERS Plan 2 prior to 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 65.
- If they have 30 service credit years and are at least 55 years old, they have the choice of a benefit that is reduced by three 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.

PERS Plan 3 defined benefit retirement 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 two percent of the AFC per year of service. For Plan 3, the monthly benefit amount is one 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 three percent annually.

PERS Plan 2 and Plan 3 members may have up to ten years of interruptive military service credit; five years at no cost and five years that may be purchased by paying the required contributions. A member who becomes totally incapacitated for continued employment while serving the uniformed services, or a surviving spouse or eligible children, may apply for interruptive military service credit. Additionally, PERS Plan 2 and Plan 3 members can also purchase up to 24 months of service credit lost because of an on-the-job injury.

PERS members may also purchase up to five years of additional service credit once eligible for retirement. This credit can only be purchased at the time of retirement and be used only to provide the member with a monthly annuity that is paid in addition to the member's retirement benefit.

Beneficiaries of a PERS Plan 2 or Plan 3 member with ten years of service who is killed in the course of employment receive retirement benefits without actuarial reduction. This provision applies to any member killed in the course of employment, on or after June 10, 2004, if found eligible by the Director of the Department of Labor and Industries.

A one-time duty-related death benefit is provided to the estate (or duly designated nominee) of a PERS member who dies in the line of service 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 said member's covered employment, if found eligible by the Department of Labor and Industries.

Judicial Benefit Multiplier
Beginning January 1, 2007 through December 31, 2007, judicial members of PERS were given the choice to participate in the Judicial Benefit Multiplier Program (JBM) enacted in 2006. Justices and judges in PERS Plan 1 and 2 were able to make a one-time 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 average compensation.

Members who chose to participate in JBM would: accrue service credit at the higher multiplier beginning with the date of their election, be subject to the benefit cap of 75 percent of AFC, pay higher contributions, stop contributing to the Judicial Retirement Account (JRA), pay higher contributions; and be given the option to increase the multiplier on past judicial service. Members who did not choose to participate would: continue to accrue service credit at the regular multiplier; not be subject o a benefit cap; continue to participate in JRA, if applicable; continue to pay contributions at the regular PERS rate; and never be a participant in the JBM Program.

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. Members required into the JBM program would: return to prior PERS Plan if membership had previously been established; be mandated into Plan 2 and not have a Plan 3 transfer choice, if a new PERS member; accrue the higher multiplier for all judicial service; not contribute to JRA; and not have the option to increase the multiplier for past judicial service.

There are 1,184 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2011:

Retirees and Beneficiaries Receiving Benefits	79,363
Terminated Plan Members Entitled to But Not Yet Receiving benefits	29,925
Active Plan Members Vested	105,578
Active Plan Members Nonvested	46,839
Total	**261,705**

Funding Policy
Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates, Plan 2 employer and employee contribution rates, and Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at six percent for state agencies and local government unit employees, and 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. All employers are required to contribute at the level established by the Legislature. Under PERS Plan 3, employer contributions finance the defined benefit portion of the plan, and member contributions finance the defined contribution portion. Plan 3 employee contribution rates range from 5 percent to 15 percent based on member choice. Two of the options are graduated rates dependent on the employee's age.

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, 2012 were:

Members not participating in JBM:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	7.21%**	7.21%**	7.21%***
Employee	6.00%****	4.64%****	*****

*The employer rates include the employer administrative expense fee currently set at 0.16%
**The employer rate for state elected officials is 10.74% for Plan 1 and 7.21% 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 4.64% 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*	9.71%	9.71%	9.71%**
Employer-Local Govt.*	7.21%	7.21%	7.21%**
Employee-State Agency	9.76%	9.10%	7.50%***
Employee-Local Govt.	12.26%	11.60%	7.50%***

*The employer rates include the employer administrative expense fee currently set at 0.16%
**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:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2012	$ 25,922	$ 840,556	$ 70,042
2011	24,290	697,184	77,914
2010	30,009	628,179	69,779

LAW ENFORCEMENT OFFICERS' AND FIRE FIGHTERS' RETIREMENT SYSTEM (LEOFF) PLANS 1 & 2

<u>Plan Description</u>
The Legislature established LEOFF in 1970. Membership in the system 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 prospectively 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, 1997 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 for the LEOFF Plan 2 retirement plan.

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 state 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 2012, 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 upon separation from LEOFF covered employment.

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

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

Term of Service	Percent of Final Average
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 ten 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 eligible spouse, 50 percent of the FAS, plus five percent of FAS for each eligible surviving child, with a limitation on the combined allowances of 60 percent of the FAS; or (2) If no eligible spouse, eligible children receive 30 percent of FAS for the first child plus 10 percent for each additional child, subject to a 60 percent limitation of FAS, divided equally.

A one-time duty-related death benefit is provided to the estate (or duly designated nominee) of a LEOFF Plan 1 member who dies as a result of injuries or illness sustained in the course of employment, of 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 allowance is 50 percent of the FAS plus 5 percent of 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 allowance or service retirement allowance.

LEOFF Plan 1 members may purchase up to five years of additional service credit once eligible for retirement. This credit can only be purchased at the time of retirement and can be used only to provide the member with a monthly annuity that is paid in addition to the member's allowance.

LEOFF Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members may retire at the age of 50 with 20 years of service, or at the age of 53 with five 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 three 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 three percent annually.

LEOFF Plan 2 provides disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 allowance amount is two percent of the FAS for each year of service. Benefits are actuarially reduced to reflect the choice of survivor option and for each year 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 three percent of 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 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 allowance of at least 10 percent of FAS and two 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.

LEOFF Plan 2 members who apply for retirement may purchase up to five years of additional service credit. The cost of this credit is the actuarial equivalent of the resulting increase in the member's benefit.

LEOFF Plan 2 members can purchase service credit for military service that interrupts employment. Additionally, LEOFF Plan 2 members who become totally incapacitated for continued employment while serving in the uniformed services, or a surviving spouse or eligible child(ren), may request interruptive military service credit.

LEOFF Plan 2 members may also purchase up to 24 consecutive months of service credit for each period of temporary duty disability.

Beneficiaries of a LEOFF Plan 2 member who is killed in the course of employment receive retirement benefits without actuarial reduction, if found eligible by the Director of 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 on-going health care insurance premiums paid to the Washington State Health Care Authority.

A one-time duty-related death benefit is provided to the estate (or duly designated nominee) 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.

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

There are 373 participating employers in LEOFF. Membership in LEOFF consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2011:

Retirees and Beneficiaries Receiving Benefits	9,947
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	656
Active Plan Members Vested	13,942
Active Plan Members Nonvested	3,113
Total	**27,658**

Funding Policy

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

The Legislature, by means of a special funding arrangement, appropriated money from the state General Fund to supplement the current service liability and fund the prior service costs of LEOFF Plan 2 in accordance with the recommendations of the Pension Funding Council and the LEOFF Plan 2 Retirement Board. However, this special funding situation is not mandated by the state constitution and this funding requirement could be returned to the employers by a change of statue. For DRS' fiscal year 2012, the state contributed $52.8 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 were:

	LEOFF Plan 1	LEOFF Plan 2
Employer*	0.16%	5.24%**
Employee	0.00%	8.46%
State	N/A	3.38%

*The employer rates include the employer administrative expense fee currently set at 0.16%
**The employer rate for ports and universities is 8.62%

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

	LEOFF Plan 1	LEOFF Plan 2
2012	$ 0	$ 297,868
2011	0	286,743
2010	0	299,503

Public Safety Employees' Retirement System (PSERS) Plan 2

Plan Description
The Legislature created PSERS in 2004 and the system became effective July 1, 2006. PSERS retirement benefit provisions are established in 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:
- Full-time 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
- Full-time employees, hired on or after July 1, 2006 by a covered employer, that meet at least one of the PERS eligibility criteria.

A *covered employer* is one that participates in PSERS. Covered employers include: State of Washington agencies: Department of Corrections; Department of Natural Resources, Parks and Recreation Commission, Gambling Commission, Washington State Patrol, and Liquor Control Board; Corrections departments of Washington state counties; and Washington state cities except for Seattle, Tacoma and Spokane and Interlocal Corrections Agencies.

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 2012, 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 upon separation from PSERS-covered employment.

PSERS Plan 2 members are vested after the completion of five years of eligible service. PSERS Plan 2 members may retire 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, with an allowance of two percent of the average final compensation (AFC) per year of service. The AFC is the monthly average of the member's 60 consecutive highest-paid service credit months, excluding any severance pay such as lump-sum payments for deferred sick leave, vacation or annual leave. Plan 2 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 three percent per year reduction for each year between the age at retirement and age 60 applies. 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 Plan 2 provides disability benefits. There is no minimum amount of service credit required for eligibility. The monthly benefit is two percent of the average final compensation (AFC) for each year of service. 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 three percent annually.

PSERS Plan 2 member can receive service credit for military service that interrupts employment. Additionally, PSERS members who become totally incapacitated for continued employment while serving in the uniformed services or a surviving spouse or eligible child(ren), may request interruptive military service credit.

PSERS members may also purchase up to 24 consecutive months of service credit for each period of temporary duty disability.

Beneficiaries of a PSERS Plan 2 member with ten years of service who is killed in the course of employment receive retirement benefits without actuarial reduction. This provision applies to any member killed in the course of employment, if found eligible by the Director of the Department of Labor and Industries.

A one-time duty-related death benefit is provided to the estate (or duly designated nominee) 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 76 participating employers in PSERS. Membership in PSERS consisted of the following as of the latest actuarial valuation date for the plan of June 30, 2011:

Retirees and Beneficiaries Receiving Benefits	15
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	1
Active Plan Members Vested	167
Active Plan Members Non-vested	4,020
Total	**4,203**

Funding Policy

Each biennium, the state Pension Funding council adopts PSERS 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. All employers are required to contribute at the level established by the Legislature. 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 payrolls, as of December 31, 2012, were as follows:

	PSERS Plan 2
Employer*	8.87%
Employee	6.36%

*The employer rate includes an employer administrative expense fee of 0.16%.

Both city and the employees made the required contributions. The city's required contributions for the years ended December 31, 2012 were as follows:

	PSERS Plan 2
2012	$ 70,566
2011	75,158
2010	49,113

Other Post-Employment Medical Benefits

Plan Description

As required by the Revised Code of Washington (RCW) Chapter 41.26, the City provides lifetime medical care for 10 LEOFF 1 retirees. The City provides medical insurance and reimbursements for all necessary hospital, medical, and nursing care expenses not payable by worker's compensation, social security, insurance provided by another employer, other pension plan, or any other similar source. Medical insurance for the retirees is provided by the City's employee medical insurance program. Under the authorization of the LEOFF Disability Board, direct payment is made for other retiree medical expenses not covered by standard medical plan benefit provisions.

The City provides health coverage for LEOFF 1 retirees through a medical plan purchased through the Association of Washington Cities (AWC) Employees Benefit Trust. In addition, the City pays or reimburses eligible retired LEOFF 1 police officers the necessary usual and customary medical expenses in excess of those covered by the applicable insurance plan. The City also purchases a long-term care insurance plan for eligible LEOFF 1 members. Dental costs and dependents are not covered.

Funding Policy

Funding for LEOFF 1 retiree healthcare costs is provided by the City as required by RCW. These medical benefits are funded on a pay-as-you-go basis through the general fund and paid out of the police department budget. Health insurance premiums are paid monthly and long-term care insurance is paid annually. Other medical services are paid as billings are presented for reimbursement. The City reimbursed 100 percent of the amount of validated claims for medical costs incurred by these individuals. Amounts paid from 2010 through 2012 by the City are as follows:

	2012	2011	2010
AWC medical premiums	$ 153,940	$ 148,883	$ 150,110
Reimbursement of other eligible costs	15,425	4,417	8,841
Long-term care insurance premiums	22,587	26,056	26,056
Total	$ 191,952	$ 179,356	$ 185,007
Average cost per retiree	$ 19,195	$ 17,936	$ 16,819

Annual OPEB Cost and Net OPEB Obligation

The City's annual other postemployment benefit (OPEB) cost is calculated based upon the annual required contribution (ARC), an amount calculated using the alternative measurement method in accordance with the parameters of GASB Statement 45 for employers in plans with fewer than one hundred total plan members utilizing the interactive tool developed by the Office of the State Actuary OSA for us by local government. The ARC represents a level of funding that, if paid on an ongoing basis is projected to cover the normal cost each year and amortize any unfunded accrued actuarial liabilities (UAAL) over a period of twenty years as of December 31, 2012. The following table shows the components of the City's annual OPEB cost for the year, and the amount actually contributed. The net OPEB obligation of $465,717 is included as a noncurrent liability on the Statement of Net Assets.

	12/31/2012
Annual required contribution	$ 259,824
Interest on net OPEB obligation	18,808
Adjustment to annual required contribution	(38,917)
Annual OPEB cost (expense)	239,715
Contributions made	(191,952)
Change in NPO	**47,763**
Net OPEB Obligation - Beginning of Year	417,954
Net OPEB Obligation - End of Year	**$ 465,717**

Funded Status and Funding Progress

The City's funding status based upon the most recent alternative method calculations follows:

Schedule of Funding Progress

Measurement Date	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability (AAL)	(3) Funded Ratio (1)/(2)	(4) Unfunded AAL/(UAAL) (2) - (1)	(5) Annual Covered Payroll	(6) UAAL as a Percentage of Covered Payroll
12/31/2008	-	3,102,730	0.0%	3,102,730	-	N/A
12/31/2009	-	3,192,515	0.0%	3,192,515	-	N/A
12/31/2010	-	3,060,708	0.0%	3,060,708	-	N/A
12/31/2011	-	2,722,621	0.0%	2,722,621	-	N/A
12/31/2012	-	2,790,393	0.0%	2,790,393	-	N/A

*The covered payroll was zero as all covered employees are retired

The City's annual OPEB cost, the percentage of annual OPEB cost contributed and the net OPEB obligation for 2012 and the preceding years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/2008	$ 288,907	51.6%	$ 139,707
12/31/2009	290,545	53.6%	274,388
12/31/2010	271,792	70.6%	361,173
12/31/2011	236,136	81.3%	417,954
12/31/2012	239,715	80.1%	465,717

Actuarial Methods and Assumptions

The City has used the alternative measurement method permitted under GASB Statement No. 45. A single retirement age of 56.24 was assumed for all active members for the purpose of determining the AAL and normal cost. Retirement, disablement, termination and mortality rates were assumed to follow the LEOFF 1 rates in the June 30, 2007 actuarial valuation report issued by the Office of the State Actuary (OSA). Healthcare costs and trends were determined by Milliman and used by OSA in the state-wide LEOFF 1 medical study performed in 2007. The results were based on grouped data with 4 active groupings and 4 inactive groupings. The actuarial cost method used to determine the AAL was Projected Unit Credit. The AAL and NOO are amortized on an open basis as a level dollar over 15 years. These assumptions are individually and collectively reasonable for the purposes of this valuation.

The interest rate is 4.5%. The amortization period is 20 years (closed) and the medical inflation factor was plus or minus 1%.

NOTE 8 – RISK MANAGEMENT

The city of Marysville is a member of the Washington Cities Insurance Authority (WCIA). Over the past three years settlements have not exceeded the City's coverage limits.

Utilizing Chapter 48.62 RCW (self-insurance regulation) and Chapter 39.34 RCW (Interlocal Cooperation Act), nine cities originally formed WCIA on January 1, 1981. WCIA was created for the purpose of providing a pooling mechanism for jointly purchasing insurance, jointly self-insuring, and/or jointly contracting for risk management services. WCIA has a total of 150 members.

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

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

Insurance coverage for property, automobile physical damage, fidelity, inland marine, and boiler and machinery are purchased on a group basis. Various deductibles apply by type of coverage. Property insurance and auto physical damage are self-funded from the members' deductible to $500,000, for all perils other than flood and earthquake, and insured above that amount by the purchase of insurance

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

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

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

NOTE 9 – SHORT-TERM DEBT

On July 25, 2011, the City Council adopted an ordinance authorizing the issuance of up to $8,000,000 of registered, tax exempt, bank-qualified, bond anticipation notes (non-revolving line of credit) (the "Note") to provide interim financing to pay the costs of constructing a freeway overpass. Cashmere Valley Bank is providing the interim financing. The Note will bear interest at a rate of 58% of the Prime rate on the outstanding principle balance. The rate shall not exceed 6% per annum. The total borrowing will mature three years from the date of the initial draw or September 1, 2014. Interest will be paid semiannually on March 1 and September 1, commencing on March 1, 2012. On September 20, 2010 the City Council passed Ordinance No. 2827 establishing Local Improvement District No. 71. The proceeds from the sale of Local Improvement District 71 bonds will be used to retire these bond anticipation notes.

On February 15, 2012, the City Council adopted an ordinance authorizing the issuance of up to $10,000,000 of Limited Tax General Obligation Bond Anticipation Notes (non-revolving line of credit) (the "Note") to provide interim financing to fund a portion of costs associated with the 156th Street freeway overpass (City's share) and road improvements on SR9/SR92. Keybank National Association will provide the interim financing. The Note will bear interest of one-month LIBOR plus .91% times 65.01%. The interest rate to be paid on any loan draw shall not exceed 6%. Interest payments will be calculated on an actual/360 day basis with principal and interest due at maturity. The total borrowing will mature on August 15, 2013.

	Outstanding 1/1/2012	Additions	Reductions	Outstanding 12/31/2012
Bond Anticipation Note-LID 71	$ 4,760,000	$ -	$ -	$ 4,760,000
Bond Anticipation Note-LTGO	-	9,441,600	-	9,441,600
Total Short-Term Debt	$ 4,760,000	$ 9,441,600	$ -	$ 14,201,600

NOTE 10 – LONG-TERM DEBT

Long-term Debt:

The city issues general obligation bonds to finance the purchase, acquisition, and construction of significant capital assets. General obligation bonds have been issued for both general government and business-type activities and are being repaid from the applicable resources. Federal obligation bonds are direct obligations and pledge the full faith and credit of the government.

General government obligation bonds outstanding at December 31, 2012 are as follows:

DESCRIPTION	DATE OF ISSUE	DATE OF FINAL MATURITY	INTEREST RATE (S)	AMOUNT ORIGINALLY ISSUED	REDEMPTION TO DATE	DEBT OUTSTANDING
Governmental Activities						
Library Cnstr. Bonds Refunded	10/01/10	12/01/12	2.00	$ 1,190,000	$ 1,190,000	$ -
LTGO Bonds	07/01/03	12/01/23	3.00-4.125	7,225,000	-	7,225,000
LTGO Bonds Series 2007A	05/01/07	12/01/27	4.00-5.50	8,045,000	1,390,000	6,655,000
LTGO Bonds 2010	10/01/10	12/01/34	2.00-5.00	4,990,000	-	4,990,000
Total Governmental Activities				**$ 21,450,000**	**$ 2,580,000**	**$ 18,870,000**
Business Activities						
Golf Course	05/17/07	12/01/17	3.90-5.30	2,120,000	685,000	1,435,000
Pro-Shop/Restaurant Remodel	08/06/03	08/01/18	5.25	1,740,982	917,425	823,557
Total Business Activities				**3,860,982**	**1,602,425**	**2,258,557**
TOTAL GENERAL OBLIGATION BONDS				**$ 25,310,982**	**$ 4,182,425**	**$ 21,128,557**

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

YEAR ENDING	GOVERNMENTAL ACTIVITIES			BUSINESS -TYPE ACTIVITIES		
12/31	PRINCIPAL	INTEREST	TOTAL	PRINCIPAL	INTEREST	TOTAL
2013	685,000	777,040	1,462,040	257,936	117,073	375,009
2014	860,000	748,615	1,608,615	281,165	103,352	384,517
2015	895,000	714,940	1,609,940	288,524	95,992	384,516
2016	930,000	679,321	1,609,321	296,223	88,292	384,515
2017	960,000	647,221	1,607,221	304,465	80,051	384,516
2018-2022	6,880,000	2,625,599	9,505,599	830,244	153,405	983,649
2023-2027	4,835,000	1,210,725	6,045,725	-	-	-
2028-2032	1,930,000	440,050	2,370,050	-	-	-
2033-2034	895,000	54,000	949,000	-	-	-
TOTAL	**$ 18,870,000**	**$ 7,897,511**	**$ 26,767,511**	**$ 2,258,557**	**$ 638,165**	**$ 2,896,722**

Business-type Long-Term Debt

Revenue debt outstanding as of December 31, 2012 is as follows:

DESCRIPTION	DATE OF ISSUE	DATE OF FINAL MATURITY	INTEREST RATE (S)	AMOUNT ORIGINALLY ISSUED	REDEMPTION TO DATE	DEBT OUTSTANDING
Water/Sewer Refunded	06/22/04	12/01/12	2.00-4.00	$ 11,555,000	$ 11,555,000	$ -
Water Revenue Bonds	05/31/05	04/01/28	3.750-5.125	48,355,000	-	48,355,000
TOTAL REVENUE BONDS				**$ 59,910,000**	**$ 11,555,000**	**$ 48,355,000**

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

YEAR ENDING	BUSINESS-TYPE ACTIVITY		
12/31	PRINCIPAL	INTEREST	TOTAL
2013	2,060,000	2,293,994	4,353,994
2014	2,145,000	2,209,825	4,354,825
2015	2,240,000	2,113,906	4,353,906
2016	2,350,000	2,002,138	4,352,138
2017	2,475,000	1,880,106	4,355,106
2018-2022	14,405,000	7,358,150	21,763,150
2023-2027	18,430,000	3,336,894	21,766,894
2028	4,250,000	100,469	4,350,469
TOTAL	$ 48,355,000	$ 21,295,482	$ 69,650,482

Other Business-type long term debt outstanding as of December 31, 2012 is as follows:

DESCRIPTION	DATE OF ISSUE	DATE OF FINAL MATURITY	INTEREST RATE (S)	AMOUNT ORIGINALLY ISSUED	REDEMPTION TO DATE	DEBT OUTSTANDING
Governmental Activities						
800 MHZ	10/01/99	12/01/19	4.75-6.00	$ 1,013,033	$ 460,527	$ 552,506
PWTFL-Lakewood Triangle	01/15/08	07/01/13	0.50	750,000	562,500	187,500
Total Governmental Activities				**1,763,033**	**1,023,027**	**740,006**
DWRFL-Edward Springs (1)	05/26/98	05/26/18	5.00	442,481	442,481	-
PWTFL-WWTP	10/22/01	07/01/06	0.50	1,000,000	526,315	473,685
PWTFL-WWTP	02/04/02	07/01/22	0.50	10,000,000	4,705,884	5,294,116
PWTFL-WWTP Phase II	05/13/04	07/01/24	0.50	10,000,000	3,684,212	6,315,788
DWRFL-Stilly Well	12/12/03	10/01/23	1.50	4,080,000	1,633,625	2,446,375
Total Other Long Term Obligations				**25,522,481**	**10,992,517**	**14,529,964**
TOTAL BUSINESS-TYPE LONG TERM OBLIGATIONS				**$ 27,285,514**	**$ 12,015,544**	**$ 15,269,970**

(1) DWRFL- Edward Springs was paid in full in 2012, saving the City $24,453 in interest.

Annual debt service requirement to maturity for other long term debt is as follows:

YEAR ENDING	GOVERNMENTAL ACTIVITIES			BUSINESS-TYPE ACTIVITIES		
12/31	PRINCIPAL	INTEREST	TOTAL	PRINCIPAL	INTEREST	TOTAL
2013	255,824	26,805	282,629	1,330,758	137,855	1,468,613
2014	71,967	22,451	94,418	1,330,758	121,997	1,452,755
2015	75,156	18,853	94,009	1,330,758	105,761	1,436,519
2016	78,798	15,095	93,893	1,330,758	89,182	1,419,940
2017	82,444	11,155	93,599	1,330,757	72,065	1,402,822
2018-2022	175,817	10,622	186,439	6,601,146	177,051	6,778,197
2023-2024	-	-	-	1,275,029	11,231	1,286,260
TOTAL	**$ 740,006**	**$ 104,981**	**$ 844,987**	**$ 14,529,964**	**$ 715,142**	**$ 15,245,106**

At December 31, 2012, the City has $ 69,854 available in governmental debt service funds to service the general bonded debt. Restricted assets in proprietary funds contain $ 5,529,858 in sinking funds and reserves as required by bond indentures.

Refunded Debt

Prior Years' Defeasance of Debt. In prior years, the City defeased certain obligations for payment by placing the proceeds of the new bonds in irrevocable trusts to provide for all future debt service payments on the old bonds. Accordingly, the liability for the refunded bonds and related securities and escrow account assets is not included in the accompanying financial statements. On December 31, 2012, $ 1,570,000 of bonds outstanding is considered defeased.

NOTE 11 – LEASES

Lease Revenue

The City entered into a lease with option to purchase agreement with the Boys and Girls Club of Snohomish County leasing a portion of the City facility located at 1010 Beach Avenue. The lease agreement began on January 1, 2010 and will terminate on December 31, 2024, with the option to extend an additional five years. The option to purchase the facility cannot be exercised prior to the termination of the lease period. This asset has a cost of $ 1,777,533, accumulated depreciation of $41,848 and a carrying value of $1,735,685. Noncancelable lease provide for minimum annual payment as follows:

Year Ending December 31	Minimum Future Rent
2013	28,611
2014	28,611
2015	28,611
2016	28,611
2017	28,611
2018-2024	200,273
Total	**$ 343,328**

NOTE 12 – CHANGES IN LONG-TERM LIABILITIES

During the year ended December 31, 2012, the following changes occurred in long-term liabilities:

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
Governmental Activities					
Bonds payable:					
General obligation bonds	$ 19,555,000	$ -	$ (685,000)	$ 18,870,000	$ 685,000
Total bonds Payable	19,555,000	-	(685,000)	18,870,000	685,000
Governmental loans	992,641	-	(252,635)	740,006	255,823
Other post-employment benefits	417,954	47,763	-	465,717	-
Compensated absences	1,754,288	1,544,196	(1,754,288)	1,544,196	882,973
Governmental activity long-term liabilities:	$ 22,719,883	$ 1,591,959	$ (2,691,923)	$ 21,619,919	$ 1,823,796
Business-Type Activities					
Bonds payable:					
General obligation bonds	$ 2,499,742	$ -	$ (241,185)	$ 2,258,557	$ 257,936
Revenue Bond	48,955,000	-	(600,000)	48,355,000	2,060,000
Less deferred amounts					
For deferred amount on refunding	489,496	-	(91,765)	397,731	-
For issuance discounts	(371,613)	-	61,981	(309,632)	-
For issuance premiums	1,908,720	-	(112,278)	1,796,442	-
Total bonds Payable	53,481,345	-	(983,247)	52,498,098	2,317,936
Governmental loans	16,023,744	-	(1,493,780)	14,529,964	1,330,757
Special Assessment	1,552	-	(1,552)	-	-
Compensated absences	268,162	278,867	(268,162)	278,867	139,433
Business-type activity long-term liabilities:	$ 69,774,803	$ 278,867	$ (2,746,741)	$ 67,306,929	$ 3,788,126

Since internal service funds predominantly serve the governmental funds, their long-term liabilities are included as part of the above totals for governmental activities. At year end $77,906 of internal service funds compensated absences are included in the above amounts. Also, for the governmental activities compensated absences are generally liquidated by the general fund.

NOTE 13 - CONTINGENCIES AND LITIGATION

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 any such potential disallowances, if any, would be immaterial.

The City of Marysville is the defendant in certain legal actions. At this time the City Attorney is unable to determine the probability of the outcomes in these cases. However, in all cases of legal actions against the city, the City Attorney believes there are meritorious defenses to the plaintiffs' claims, and that both separately and collectively the alleged damages in these cases are within the coverage limits of the city's insurance policies. Therefore, the city believes that the costs of defending these claims, and any awards, if any, will not be material to the city's financial position.

NOTE 14 - INTERFUND TRANSACTIONS AND BALANCES

Loans between funds are classified as interfund loans receivable and payable, or advances to and from other funds depending on the time period for which the loan was made. Advances to other funds are typically loans that are not expected to be repaid within one year from the date of the financial statements.

Interfund loans receivable and payable are used primarily to meet short-term cash flow requirements while waiting for other financing instruments to be put in place.

Interfund loan balances at December 31, 2012 were:

Funds	Interfund Loans Receivable	Interfund Loans Payable
Golf Course Fund		841,000
Waterworks Utility	841,000	
Total	**$ 841,000**	**$ 841,000**

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 one fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. Interfund activity for the year is as follows:

		Transfer In						
Fund	**Total Transfer Out**	**General**	**Street Construction**	**Nonmajor Governmental**	**Waterworks Utility**	**Solid Waste**	**Nonmajor Enterprise**	**Internal Services**
General Fund	2,130,880	-	-	1,265,332	97,438	-	758,505	9,605
Street Construction	937,327	-	-	937,327	-	-	-	-
Nonmajor Governmental Funds	1,062,910	42,173	965,000	52,580	-	3,157	-	-
Waterworks Utility	1,133,890	695,457	-	438,433	-	-	-	-
Solid Waste	85,514	-	-	-	-	-	-	85,514
Total Transfer In	**$ 5,350,521**	**$ 737,630**	**$ 965,000**	**$ 2,693,672**	**$ 97,438**	**$ 3,157**	**$ 758,505**	**$ 95,119**

NOTE 15 – RECEIVABLE AND PAYABLE BALANCES

The receivable and payable balances are easily discernible in the financial statements.

NOTE 16 – JOINT VENTURE

Joint Venture: The city, in conjunction with other governmental entities, participates in one joint venture. Using the same criteria applied to the other organizations to determine the reporting entity, this joint venture is not included in the city's annual financial statements.

The **Snohomish County Emergency Radio System (SERS)**, a nonprofit corporation pursuant to chapter 24.06 RCW and IRC 501©(3), was established via an interlocal agreement in 1999 with Snohomish County, SNOCOM, SNOPAC, and the Cities of Brier, Edmonds, Lynnwood, Marysville, Mill Creek, Mountlake Terrace, Mukilteo, and Woodway. The purpose of SERS is to design, develop, finance, acquire, install, operate, maintain, repair and replace the county's public safety communications service. 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. As of December 31, 2012, an equity interest in the SERS joint venture of $429,276 was recorded in the governmental statement of net position. Separate financial statements for the joint venture may be obtained from Snohomish County, Finance Department, 3000 Rockefeller Avenue, Everett, WA 98201.

NOTE 17 – OTHER DISCLOSURES

NET ASSETS RESTATED

Net Assets (restated)

	Governmental Activity	Business Activity
Net Capital Assets	167,859,729	164,781,239
Less Noncurrent Debt	(18,669,183)	(61,494,831)
Less Current Debt Principal	(940,823)	(3,648,693)
Exclude Unspent Proceeds of Capital Debt	-	5,450,137
Add Debt Related Deferred Charges	-	1,728,080
Net Assets invested in capital assets, net of related debt	148,249,723	106,815,932

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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.

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

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

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

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

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

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