

The City of Edmonds, Washington Financial Statements

(For the Year Ended December 31, 2010)



Seeing Whales by Richard Beyer

Mike Cooper, Mayor



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Financial Section

City of Edmonds
Snohomish County
January 1, 2010 through December 31, 2010

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Independent Auditor's Report on Financial Statements

City of Edmonds Snohomish County January 1, 2010 through December 31, 2010

Mayor and City Council
City of Edmonds
Edmonds, Washington

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Edmonds, Snohomish County, Washington, as of and for the year ended December 31, 2010, which collectively comprise the City's basic financial statements as listed on page 9. These financial statements are the responsibility of the City's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Edmonds, as of December 31, 2010, 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 conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 10 through 18 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in black ink, appearing to read "Brian Sonntag". The signature is fluid and cursive, with the first name "Brian" and last name "Sonntag" clearly distinguishable.

BRIAN SONNTAG, CGFM
STATE AUDITOR

December 21, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Edmonds (City) presents this Management's Discussion and Analysis of its financial activities for the fiscal year ended December 31, 2010. This information focuses on significant financial issues, provides an overview of the City's financial activity, highlights significant changes in the City's financial position, and identifies material variances between the approved budget and actual spending.

FINANCIAL HIGHLIGHTS

- At December 31, 2010 the City's net assets, the amount by which total assets exceeded total liabilities totaled \$139 million. Of this amount, \$113 million is invested in capital assets, such as land, buildings, infrastructure net of related debt; \$2 million is restricted for debt service and capital projects; and \$24 million (unrestricted net assets) may be used to meet the government's ongoing activities and obligations.
- The City's total net assets increased by \$2.4 million or 2% in 2010. Governmental activities increased by \$0.6 million and business-type activities increased by \$1.8 million.
- Governmental funds reported a combined ending fund balance of \$12.7 million: a \$1.2 million increase over the prior year. Of this amount, \$12.6 million is unreserved and available to fund ongoing activities and \$138,126 is reserved for debt service.
- Unreserved fund balance in the General Fund was \$6.9 million, an increase of \$786,202 from the prior year. This includes \$1.9 million in the Emergency Reserve Finance Fund which shall be used only in cases of catastrophic emergencies such as earthquake or other natural or manmade disasters. The unreserved fund balance represents 22% of total 2010 General Fund expenditures.
- Total City debt decreased by a net of \$2.6 million during the current fiscal year. Outstanding bonded debt, loans, and long term contracts at year-end totaled \$29.0 million.

OVERVIEW OF THE FINANCIAL STATEMENTS

The City's basic financial statements consist of three components: (1) Government-wide financial statements, (2) Fund financial statements, and (3) Notes to the financial statements. The report also contains other supplementary information. This section will introduce and explain the basic financial statements.

Government-Wide Financial Statements

Government-wide financial statements are designed to provide readers a picture of the financial condition and activities of the City of Edmonds as a whole, with a broad overview and in a manner similar to private-sector business. The government-wide financial statements distinguish between functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities), from functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities).

Governmental activities include general government (executive, finance, and human resources), judicial, public safety (police and fire), physical environment, economic environment, transportation, mental/physical health, and culture/recreation. Business-type activities consist of water, sewer, storm water, and wastewater treatment utility operations.

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

The **Statement of Net Assets** presents information on all of the City's assets and liabilities, with the difference between the

two reported as net assets. This statement combines and consolidates governmental funds' current financial resources (short-term spendable resources) with capital assets and long-term obligations. This statement is similar to the balance sheet of a private sector business. Over time, increases or decreases in net assets may serve as a useful indicator of improvement or deterioration in the City's overall financial position.

The **Statement of Activities** presents information designed to show how the City's net assets changed during the year. This statement distinguishes revenue generated by specific functions (program revenue) from revenue provided by taxes and other sources not related to a specific function. Program revenue (charges for services, grants, and contributions) is compared to expenses for those functions in order to show how much each function either supports itself or relies on taxes and other general funding sources for support. All activity on this statement is reported on the accrual basis of accounting, requiring that revenues are reported when they are earned and expenses are reported when they are incurred, regardless of when cash is received or disbursed. Items such as uncollected taxes, unpaid vendor invoices for goods or services received during the year, and earned but unused vacation leave are included in the statement of activities as revenues and expenses.

Fund Financial Statements

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

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

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

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

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

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

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

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

Notes to the Financial Statements

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

Required Supplementary Information

This report also contains other required supplementary information on pension plan funding.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Statement of Net Assets

As noted earlier, changes in net assets over time may serve as a useful indicator of a government's financial position. The City's net assets at December 31, 2010 totaled \$139 million, an increase of \$3 million over the prior year end. This increase is explained in more detail in the Statement of Changes in Net Assets starting on page 5. Following is a condensed version of the Government-Wide Statement of Net Assets.

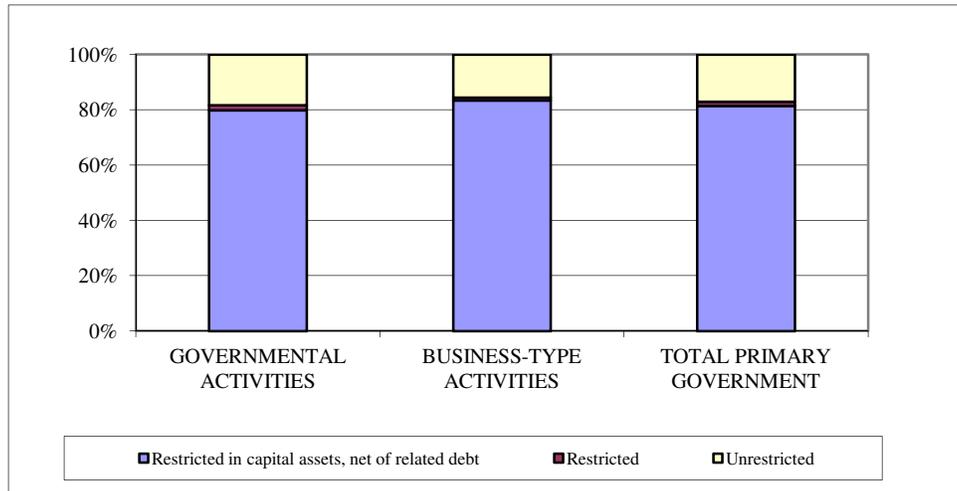
Figure 1: Condensed Statement of Net Assets

	<u>GOVERNMENTAL ACTIVITIES</u>		<u>BUSINESS-TYPE ACTIVITIES</u>		<u>TOTAL PRIMARY GOVERNMENT</u>	
	2009	2010	2009	2010	2009	2010
Current and other assets	25,241,701	\$25,773,347	12,960,224	\$12,439,784	38,201,925	\$38,213,131
Capital assets (net of accumulated depreciation)	75,751,424	73,357,118	61,227,239	62,464,194	136,978,663	135,821,312
TOTAL ASSETS	100,993,125	99,130,465	74,187,463	74,903,978	175,180,588	174,034,443
Current and other liabilities	6,438,185	6,333,580	2,725,229	2,588,498	9,163,414	8,922,078
Long-term liabilities	20,099,180	17,763,756	9,370,905	8,448,647	29,470,085	26,212,403
TOTAL LIABILITIES	26,537,365	24,097,336	12,096,134	11,037,145	38,633,499	35,134,481
NET ASSETS						
Restricted in capital assets, net of related debt	51,991,258	59,961,071	51,208,429	53,273,296	103,199,687	113,234,367
Restricted	2,658,658	1,368,707	699,670	687,447	3,358,328	2,056,154
Unrestricted	19,805,844	13,703,352	10,183,230	9,906,089	29,989,074	23,609,441
TOTAL NET ASSETS	\$74,455,760	\$75,033,130	\$62,091,329	\$63,866,832	\$136,547,089	\$138,899,962

Approximately \$867,000 of the primary government's total net assets are restricted for construction projects to renovate or improve the City's buildings, parks, street and utilities infrastructure. The remaining balance of net assets is primarily allocated to restrictions for debt service payments in the amount of \$1.0 million and unrestricted net assets of \$23.6 million. The business-type unrestricted assets of \$9.9 million may only be spent on utility activities. Other functions of the City may access the governmental unrestricted assets of \$13.7 million to meet ongoing obligations to citizens and creditors. There are no restrictions, commitments, or other limitations that significantly affect the availability of resources for future use.

Figure 2 below provides a graphical comparison of the three categories of net assets. As shown, the majority of the City’s net assets are invested in capital assets which are used to provide services to citizens. Capital assets include streets, water/sewer lines and related infrastructure, land, buildings, equipment, etc., less any related outstanding debt used to acquire those assets. It should be noted that although the investment in capital assets is reported net of related debt, resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

Figure 2: Composition of Net Assets



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

Statement of Change in Net Assets

The following table illustrates the increases or decreases in net assets of the City resulting from operations. The City’s net assets increased approximately \$2,353,000. The increase in net assets was due to an increase in governmental activities by \$577,000 and an increase in business-type activities in the amount of \$1,776,000 an indication that the City’s overall financial position has improved.

The graphs that follow compare program revenues to program expenses and illustrate the revenues by source separately for the governmental and business-type activities. Following is a condensed version of the City’s changes in net assets.

Figure 3: Changes in Net Assets Resulting from Changes in Revenues and Expenses

	<u>GOVERNMENTAL ACTIVITIES</u>		<u>BUSINESS-TYPE ACTIVITIES</u>		<u>TOTAL PRIMARY GOVERNMENT</u>	
	2009	2010	2009	2010	2009	2010
Revenues						
Program Revenue:						
Charges for Services	\$8,091,277	\$8,138,658	\$14,275,275	\$14,347,539	\$22,366,552	\$22,486,197
Operating Grants and Contributions	416,086	272,554	88,983	47,249	505,069	319,803
Capital Grants and Contributions	1,940,900	534,066	688,796	1,246,156	2,629,696	1,780,222
General Revenues:						
Property Taxes	13,908,042	13,683,426	0	0	13,908,042	13,683,426
Sales Taxes	4,952,898	5,002,282	0	0	4,952,898	5,002,282
Other Taxes	8,894,835	9,040,964	0	0	8,894,835	9,040,964
Other	647,222	1,360,339	136,779	33,154	784,001	1,393,493
Total Revenue	38,851,260	38,032,289	15,189,833	15,674,098	54,041,093	53,706,387
Program Expenses						
Governmental Activities						
General Government	6,867,604	7,327,722	0	0	6,867,604	7,327,722
Judicial	880,919	882,404	0	0	880,919	882,404
Public Safety	17,823,468	17,630,352	0	0	17,823,468	17,630,352
Physical Environment	1,150,200	1,266,933	0	0	1,150,200	1,266,933
Economic Environment	1,830,100	1,643,520	0	0	1,830,100	1,643,520
Mental and Physical Health	12,147	10,217	0	0	12,147	10,217
Culture and Recreation	4,246,268	3,984,078	0	0	4,246,268	3,984,078
Transportation	3,751,956	4,325,832	0	0	3,751,956	4,325,832
Interest on Long-term Debt	470,398	446,236	0	0	470,398	446,236
Business-Type Activities						
Combined Utility	0	0	13,890,882	13,836,220	13,890,882	13,836,220
Total Expenses	37,033,060	37,517,294	13,890,882	13,836,220	50,923,942	51,353,514
Excess (Deficiency) Before Transfers	1,818,200	514,995	1,298,951	1,837,878	3,117,151	2,352,873
Transfers	0	62,375	0	(62,375)	0	0
Increase in Net Assets	1,818,200	577,370	1,298,951	1,775,503	3,117,151	2,352,873
Net Assets - Beginning of Year	72,637,560	74,455,760	60,792,378	62,091,329	133,429,938	136,547,089
Net Assets - End of Year	\$74,455,760	\$75,033,130	\$62,091,329	\$63,866,832	\$136,547,089	\$138,899,962

Figure 4: Governmental Activities

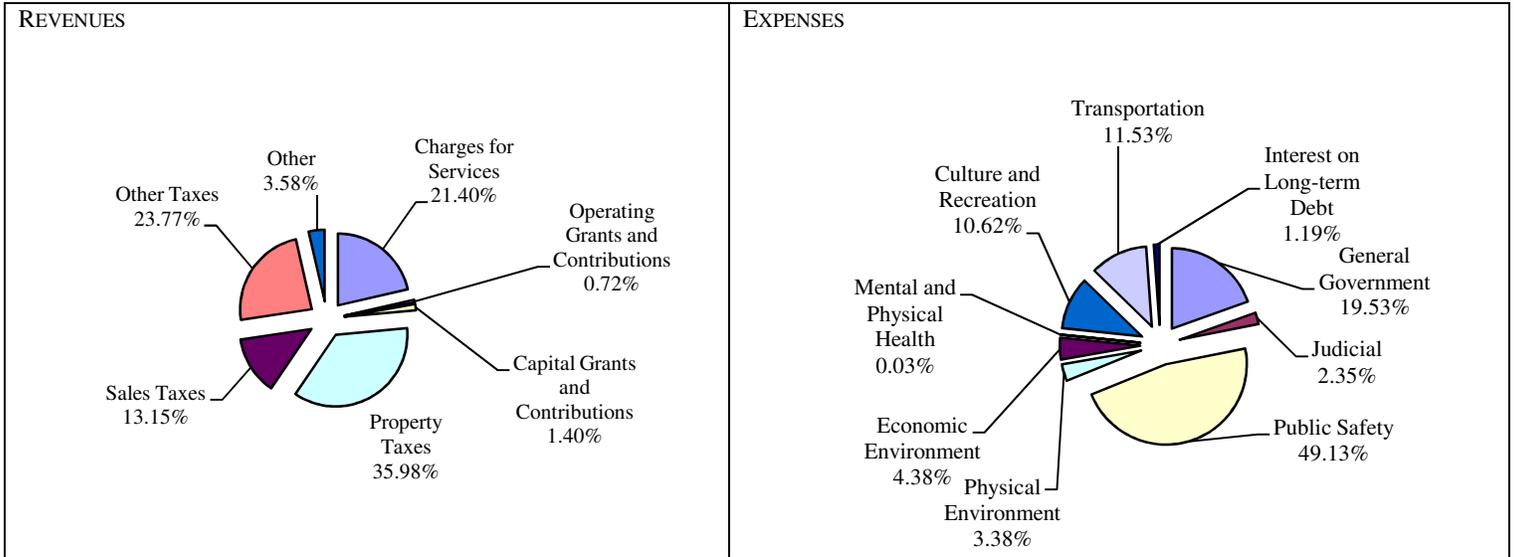
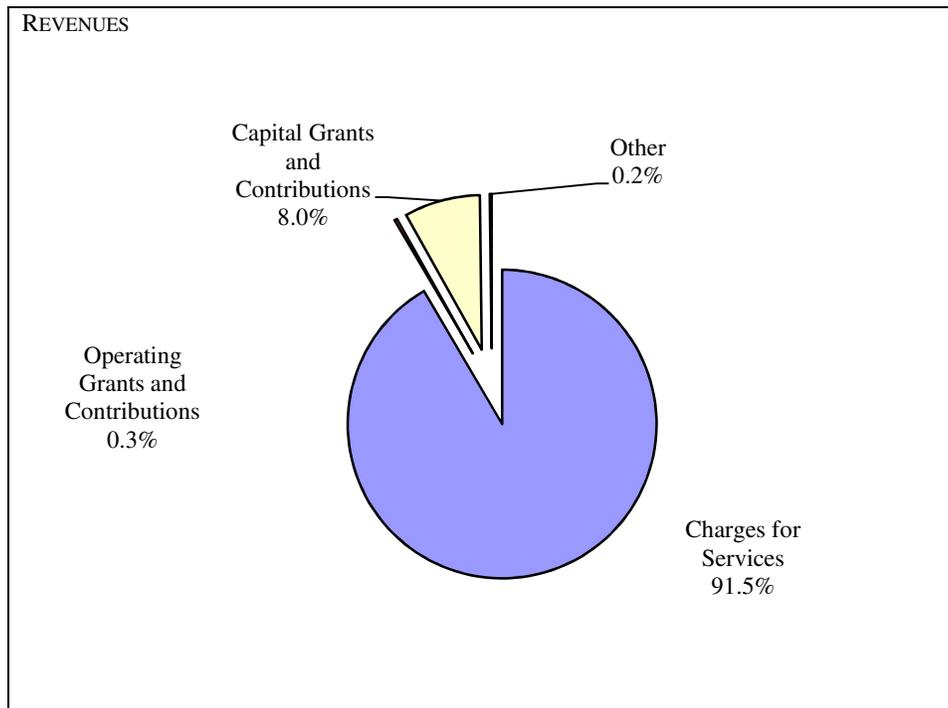


Figure 5: Business-Type Activities



FINANCIAL ANALYSIS OF THE CITY'S FUNDS

Governmental Activities Analysis

Total revenues decreased from 2009 levels by \$757,000 due to a decrease in collections of property tax, charges for services and capital grants and contributions. These decreases were offset by increases in sales and utility tax revenues and the disposition of capital assets. Overall revenues exceeded expenditures which led to a \$577,000 increase in Net Assets.

Per the Statement of Activities, the total cost of all governmental activities in 2010 was \$37.5 million. Of this amount, \$8.9 million was paid for 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) or \$28.6 million was the cost of governmental services paid primarily by the City's taxpayers.

Business-Type Activities Analysis

The City's Utility fund, the only business-type activity of the city, net assets increased by \$1.8 million. Utility operating revenues of \$14.3 million showed an increase of \$72,000 over 2009 collections, however, operating costs including personnel services, supplies, professional services and insurance decreased by \$55,000.

At the end of the current fiscal year the City's Utility fund reported an ending net assets of \$63.9 million. Of this amount \$53.3 million is invested in capital assets, net of related debt and approximately \$9.9 million constitutes unreserved fund balance, which is available for discretionary spending. The remainder of the fund balance is reserved; it is committed for various purposes and is not available for new spending.

Governmental Funds

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

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, unreserved 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 combined ending fund balances of \$12.7 million. Approximately \$12.5 million (99%) of that amount constitutes unreserved fund balance, which is available for discretionary spending. The remainder of the fund balance is reserved; it is committed for debt service and is not available for new spending.

In 2010, the governmental funds reported revenue of \$37.2 million and expenditures of \$38.2 million. Other financing sources/uses provided an additional \$2.2 million comprised of transfers in and transfers out which netted to \$1.3 million and proceeds from the disposition of capital assets amounting to \$981,444. Overall, the governmental funds fund balance increased by \$1.2 million for the year.

The General Fund is the primary operating fund of the City through which all receipts and payments of City operations are processed, unless they are required to be accounted for in another fund. Taxes are the major revenue source. At the end of 2010, the fund balance of the General Fund was \$6.9 million, a 13% increase over 2009. This increase was primarily driven by the disposition of capital assets. As a measure of the fund's liquidity, the ending fund balance is 22% of the fund's 2010 expenditures. Further details regarding the activity in the General Fund is discussed below under the heading of General Fund Budgetary Highlights.

Proprietary Funds

The City's proprietary fund statements provide the same type of information found in the government-wide financial statements, but in more detail. As the City has only one enterprise fund, factors concerning the finances of the City's enterprise fund have been discussed in the City's business-type activities.

GENERAL FUND BUDGETARY HIGHLIGHTS

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

The 2010 budget was amended four times. The final general fund expenditure budget was \$49,899 lower than the original adopted budget. This was the net result of several individual amendment requests enacted during the year.

A comparison of the actual performance of the general fund on a budgetary basis to the final budget indicates that the total revenues were less than budgeted total revenues by approximately \$918,000 due to a decrease in collections of property and sales tax as well as building planning fee receipts. All other General Fund revenues including utility tax, business licenses and permits, court fees and charges for services met or exceeded budget estimates.

Expenditures were \$1.9 million below budget, which consisted of salary and benefit savings of \$1.1 million primarily due to vacant positions as well as inter fund charges for equipment of \$321,000 and inter governmental charges for services of \$266,000.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The City’s investment in capital assets for its governmental and business-type activities as of December 31, 2010 amounted to \$135.8 million (net of accumulated depreciation), a decrease of \$1.1 million.

Additional information on the City’s assets can be found in Note 7 to the financial statements.

Figure 6: Capital Assets at Year End, Net of Depreciation

	Governmental Activities	Business-Type Activities	Total
Land	\$14,530,663	\$1,128,419	\$15,659,082
Buildings	13,641,888	22,829,914	36,471,802
Improvements other than buildings	7,637,207	28,114,784	35,751,991
Infrastructure	28,060,898	0	28,060,898
Machinery and Equipment	2,385,481	270,587	2,656,068
Intangible Assets	0	396,085	396,085
Construction in Progress	7,100,980	9,724,406	16,825,387
	\$73,357,117	\$62,464,195	\$135,821,312

Long Term Debt

At the end of the fiscal year, the City had total bonded debt outstanding of \$24 million and other long term debt of \$5 million. The total debt excluding compensated absences and deferred amounts is distributed as follows:

Figure 7: Long Term Debt

	Governmental Activities	Business-Type Activities	Total
General Obligation Debt	\$17,157,406	\$3,767,595	\$20,925,001
Special Assessment Debt with Government Commitment	0	0	0
Revenue Bonds	0	2,870,000	2,870,000
Capital Contracts	1,390,871	0	1,390,871
Public Work Trust Fund Loans	1,040,296	2,748,774	3,789,070
Total Long-term Debt	\$19,588,573	\$9,386,369	\$28,974,942

The City maintains high ratings from Moody’s for its General Obligation Bonds (Aa2 for voter approved and Aa3 for councilmanic).

Washington State statutes limit the amount of debt a governmental entity may issue to 7.5% of its total assessed valuation, subject to a 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. Of the 2.5 percent allowed for general purposes, Non-voted (councilmanic) general purpose indebtedness is limited to 1.5% of assessed valuation.

The City’s assessed valuation for determining debt capacity available is \$7.0 billion (See Schedule 10). Remaining debt capacity is as follows:

Figure 8: Debt Capacity Available

<u>Item</u>	Capacity
General	\$134,722,308
Parks Facilities/Open Space	160,831,471
Utilities	160,831,471
Total Capacity	\$456,385,251

Additional information on the City’s long-term debt can be found in Note 10 to the financial statements.

ECONOMIC FACTORS AND 2011 BUDGET

The continued economic downturn and related slow economic recovery continues to have a negative impact on the City’s revenues, including sales tax revenue and charges for services revenue. City staff has continued to hold the line on spending and therefore, the City’s 2011 annual budget reflects no new programs and is based in large part on 2010 estimated actual results with minimal increases to 2010 revenue.

Requests for Information

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



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**STATEMENT OF NET ASSETS
DECEMBER 31, 2010**

	Primary Government			Component Unit
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	EDMONDS PUBLIC FACILITIES DISTRICT
ASSETS				
Cash and cash equivalents	\$15,857,765	\$8,852,389	\$24,710,154	\$18,596
Deposits with trustees	20,117	0	20,117	0
Taxes receivable	380,699	0	380,699	0
Accounts receivable	1,380,472	1,909,461	3,289,933	73,677
Special assessments	39,462	0	39,462	0
Due from component unit	194,807	0	194,807	0
Due from other governments	1,797,198	761,016	2,558,214	79,353
Other current assets	50,710	98,408	149,118	16,380
Deferred charges	37,527	135,461	172,988	0
Restricted:				
Cash and cash equivalents	0	683,049	683,049	153,248
Investments	0	0	0	0
Special assessments	197,382	0	197,382	0
Due from component unit - long-term	5,240,000	0	5,240,000	0
Investment in joint venture	577,208	0	577,208	0
Land	14,530,663	1,128,420	15,659,083	3,444,885
Capital assets (net) (See Note 7)	51,725,475	51,611,368	103,336,843	11,743,536
Construction in progress	7,100,980	9,724,406	16,825,386	0
TOTAL ASSETS	\$99,130,465	\$74,903,978	\$174,034,443	\$15,529,675
LIABILITIES				
Accrued wages	\$748,508	\$157,307	\$905,815	\$50,809
Accounts payable	437,904	498,021	935,925	120,932
Internal Balances	(135,985)	135,985	0	0
Due to other governmental units	0	289,145	289,145	0
Accrued bond interest payable	64,678	25,993	90,671	0
Other current liabilities	112,264	235,195	347,459	24,151
Deferred revenues	630	24,461	25,091	117,571
Non-current liabilities:				
Net pension obligation	181,254	0	181,254	0
Net other post employment obligation	464,517	0	464,517	0
Due within one year (See Note 10)	4,459,810	1,222,391	5,682,201	428,684
Due in more than one year (See Note 10)	17,763,756	8,448,647	26,212,403	8,914,524
TOTAL LIABILITIES	\$24,097,336	\$11,037,145	\$35,134,481	\$9,656,671
NET ASSETS				
Invested in capital assets, net of related debt	\$59,961,071	\$53,273,296	\$113,234,367	\$5,784,737
Restricted for:				
Capital projects	866,713	0	866,713	398,498
Debt service	376,882	683,049	1,059,931	131,196
Future pledges and sponsorship	0	0	0	322,014
Tourism	125,112	0	125,112	0
Customer deposits	0	4,398	4,398	0
Unrestricted	13,703,352	9,906,089	23,609,441	(763,441)
TOTAL NET ASSETS	\$75,033,130	\$63,866,832	\$138,899,962	\$5,873,004

The accompanying notes are an integral part of this statement

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2010
Page 1 of 2

PROGRAM REVENUES

FUNCTIONS/PROGRAMS	Expenses	Charges for Services	Grants and Contributions	Grants and Contributions
Primary government:				
Governmental activities:				
General government services	\$7,327,722	\$3,097,629	\$1,885	\$161,854
Judicial	882,404	639,217	0	0
Public safety	17,630,352	1,132,605	44,033	0
Physical environment	1,266,933	758,728	65,089	0
Economic environment	1,643,520	647,143	100,621	0
Mental and physical health	10,217	160,870	0	0
Culture and recreation	3,984,078	1,010,063	59,786	69,704
Transportation	4,325,832	692,403	1,140	302,508
Interest on long-term debt	446,236	0	0	0
Total governmental activities	37,517,294	8,138,658	272,554	534,066
Business-type activities:				
Combined utility operation	13,836,220	14,347,539	47,249	1,246,156
Total business-type activities	13,836,220	14,347,539	47,249	1,246,156
Total primary government	\$51,353,514	\$22,486,197	\$319,803	\$1,780,222
Component unit:				
Edmonds Public Facilities District	\$2,218,488	\$656,642	\$446,739	\$163,315

The accompanying notes are an integral part of this statement

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2010
Page 2 of 2

NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS

FUNCTIONS/PROGRAMS	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Facilities District
Primary government:				
Governmental activities:				
General government services	(\$4,066,354)	\$0	(\$4,066,354)	\$0
Judicial	(243,187)	0	(243,187)	0
Public safety	(16,453,714)	0	(16,453,714)	0
Physical environment	(443,116)	0	(443,116)	0
Economic environment	(895,756)	0	(895,756)	0
Mental and physical health	150,653	0	150,653	0
Culture and recreation	(2,844,525)	0	(2,844,525)	0
Transportation	(3,329,781)	0	(3,329,781)	0
Interest on long-term debt	(446,236)	0	(446,236)	0
Total governmental activities	(28,572,016)	0	(28,572,016)	0
Business-type activities:				
Combined utility operation	0	1,804,724	1,804,724	0
Total business-type activities	0	1,804,724	1,804,724	0
Total primary government	(\$28,572,016)	\$1,804,724	(\$26,767,292)	\$0
Component unit:				
Edmonds Public Facilities District				(\$951,795)
General Revenues:				
Property taxes	13,683,426	0	13,683,426	0
Sales taxes	5,002,282	0	5,002,282	394,020
Utility taxes	5,997,151	0	5,997,151	0
Fuel taxes	884,784	0	884,784	0
Real estate excise taxes	1,709,951	0	1,709,951	0
Hotel/motel taxes	68,186	0	68,186	0
Other taxes	380,892	0	380,892	0
Payments from Component Unit	381,368	0	381,368	0
Interest and investment earnings	32,845	25,697	58,542	157
Miscellaneous	(37,065)	100	(36,965)	0
Special Item	0	0	0	15,800
Gain on sale of capital assets	983,191	7,357	990,548	0
Transfers	62,375	(62,375)	0	0
Total revenues, special items, transfers	29,149,386	(29,221)	29,120,165	409,977
Change in net assets	577,370	1,775,503	2,352,873	(541,815)
Net assets - beginning	74,455,760	62,091,329	136,547,089	6,430,761
Prior period adjustment			0	(15,945)
Net assets - ending	\$75,033,130	\$63,866,832	\$138,899,962	\$5,873,004

The accompanying notes are an integral part of this statement

**BALANCE SHEET - GOVERNMENTAL FUNDS
DECEMBER 31, 2010**

	GENERAL FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents:			
General Fund	3,831,355		3,831,355
Emergency Reserve Finance Fund	1,927,600		1,927,600
Other General Fund	2,500		2,500
Other Governmental Funds		\$5,486,487	5,486,487
Total Cash and cash equivalents	5,761,455	5,486,487	11,247,942
Deposits with trustee	20,117	0	20,117
Receivables, net			
Taxes	380,699	0	380,699
Customer accounts	729,560	0	729,560
Assessments	0	39,462	39,462
Due from other funds	135,985	0	135,985
Interfund loans receivable	0	0	0
Due from other governmental units	6,713,861	473,337	7,187,198
Due from Component Unit	44,807	0	44,807
Inventory	817	0	817
Total Current Assets	13,787,301	5,999,286	19,786,587
RESTRICTED ASSETS			
Special assessments - deferred	0	197,381	197,381
Total Restricted Assets	0	197,381	197,381
TOTAL ASSETS	\$13,787,301	\$6,196,667	\$19,983,968
LIABILITIES AND FUND BALANCES			
CURRENT LIABILITIES			
Wages payable	\$707,091	\$28,245	\$735,336
Accounts payable	349,515	78,277	427,792
Interfund loans payable	0	0	0
Due to other governmental units	0	0	0
Custodial accounts	65,965	0	65,965
Other current liabilities	12,234	34,694	46,928
Total Current Liabilities	1,134,805	141,216	1,276,021
NONCURRENT LIABILITIES			
Deferred revenues	5,797,388	238,755	6,036,143
Total Noncurrent Liabilities	5,797,388	238,755	6,036,143
TOTAL LIABILITIES	6,932,193	379,971	7,312,164
FUND BALANCES			
Reserved for:			
Debt service	0	138,126	138,126
Unreserved, reported in:			
General fund	6,855,108	0	6,855,108
Special revenue funds	0	5,678,570	5,678,570
TOTAL FUND BALANCES	6,855,108	5,816,696	12,671,804
TOTAL LIABILITIES AND FUND BALANCES	\$13,787,301	\$6,196,667	\$19,983,968

The accompanying notes are an integral part of this statement

**RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
DECEMBER 31, 2010**

Total governmental fund balances		\$12,671,804
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not current period financial resources and therefore are not reported in the funds.		73,934,326
These assets consist of:		
Land	14,530,663	
Construction in progress	7,100,980	
Investment in joint venture	577,208	
Buildings	25,479,908	
Improvements other than buildings	13,531,609	
Infrastructure	54,326,213	
Machinery and equipment - general government	7,164,938	
Less: Accumulated depreciation	(48,777,194)	
Other long term assets used in governmental activities are not current period financial resources and therefore are not reported in the funds.		687,250
Court receivable	649,723	
Deferred charges	37,527	
Long term liabilities, including bonds payable are not due and payable in the current period and therefore are not reported in the funds.		(16,846,407)
These long-term liabilities consist of:		
General obligation bonds	(17,157,406)	
Compensated absences (\$2,634,985 total liability less \$51,458 attributable to internal service funds)	(2,583,527)	
Capital contracts	(1,390,871)	
Public works trust fund loan	(1,040,296)	
Accrued interest	(64,679)	
Net pension obligation	(181,254)	
Net OPEB Obligation	(464,517)	
Unearned revenues reported as deferred revenues in the Balance Sheet - Governmental Funds not reported in the government-wide Statement of Net Assets (See Note 1)	6,036,143	
Internal service fund is used by management to charge the costs of equipment rental to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets. Capital assets of \$1,974,657 are included in the capital asset adjustment above.		4,586,157
Net assets of governmental activities		\$75,033,130

The accompanying notes are an integral part of this statement

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2010**

	GENERAL FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES			
Taxes	\$24,975,422	\$1,326,435	\$26,301,857
Licenses and permits	1,642,415	19,925	1,662,340
Intergovernmental revenues	1,189,474	1,419,559	2,609,033
Charges for services	4,198,333	830,397	5,028,730
Fines and forfeits	624,447	0	624,447
Other revenues	391,727	604,992	996,719
Total revenues	33,021,818	4,201,308	37,223,126
EXPENDITURES			
Current:			
General government services	7,024,137	668,415	7,692,552
Security of persons and property	17,900,605	70,455	17,971,060
Physical environment	1,129,750	150,291	1,280,041
Transportation	0	1,979,650	1,979,650
Economic environment	944,627	5,058	949,685
Mental and physical health	10,217	0	10,217
Culture and recreation	3,334,651	507,237	3,841,888
Capital outlay	0	1,861,161	1,861,161
Debt service:			
Principal	1,054,674	734,711	1,789,385
Interest	367,780	470,212	837,992
Other debt service costs	0	0	0
Total Expenditures	31,766,441	6,447,190	38,213,631
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	1,255,377	(2,245,882)	(990,505)
OTHER FINANCING SOURCES (USES)			
Disposition of capital assets	968,872	12,572	981,444
Transfers in	575,004	2,922,267	3,497,271
Transfers out	(2,013,051)	(229,156)	(2,242,207)
Total other financing sources (uses)	(469,175)	2,705,683	2,236,508
Net change in fund balances	786,202	459,801	1,246,003
Fund balances - beginning	6,068,906	5,356,895	11,425,801
FUND BALANCES - ENDING	\$6,855,108	\$5,816,696	\$12,671,804

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, 2010**

Net change in fund balances - total governmental funds	\$1,246,003
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.	
	(2,485,408)
This is comprised of:	
Capital outlays	2,125,282
Internal Service Fund capital purchases	53,457
Current year depreciation (includes Internal Service Fund - \$428,410)	(4,026,697)
Net Adjustment for Sold/Demolished Assets	(21,110)
Internal Service Fund Net Adjustment for Sold/Demolished Assets	(525,236)
Adjustment in Joint Venture	(91,104)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	
	(126,582)
This is comprised of:	
Deferred tax	10,552
Other deferred revenue	(189,328)
Record of court receivable	52,194
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. 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.	
	1,784,078
This is comprised of:	
Amortization for deferred charges	(5,308)
Long-term debt repayments	1,789,386
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.	
	337,905
This is comprised of:	
Accrued interest expense	5,154
Net pension obligation	(4,264)
Net OPEB Obligation	(145,441)
Accrued compensating absence expense (\$493,182 total expenditure less \$10,726 attributable to internal service funds)	482,456
Internal service funds are used by management to charge the cost of equipment rental to individual funds. The net revenue (expense) of this internal service fund is reported with governmental activities. Capital activity for 2011 in the net amount of (\$900,189) is included in the capital asset adjustments above.	
	<u>(178,626)</u>
Change in net assets of governmental activities	<u>\$577,370</u>

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, 2010**

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE/ (NEGATIVE)
REVENUES				
Taxes	\$25,869,222	\$25,676,244	\$24,975,422	(\$700,822)
Licenses and Permits	2,107,204	1,647,204	1,642,415	(4,789)
Intergovernmental Revenues	2,113,775	1,123,547	1,189,474	65,927
Charges for Services	4,555,253	4,436,313	4,198,333	(237,980)
Fines and Forfeits	640,300	640,300	624,447	(15,853)
Other Revenues	416,312	416,312	391,727	(24,585)
Total Revenues	35,702,066	33,939,920	33,021,818	(918,102)
EXPENDITURES				
Current:				
General Government Services	7,181,616	7,461,088	7,024,137	436,951
Security of Persons and Property	19,750,178	18,858,552	17,900,605	957,947
Physical Environment	1,193,357	1,193,357	1,129,750	63,607
Economic Environment	1,243,166	1,243,166	944,627	298,539
Mental and Physical Health	10,100	10,100	10,217	(117)
Culture and Recreation	3,449,470	3,485,530	3,334,651	150,879
Capital Outlay	30,000	30,000	0	30,000
Debt Service:				
Principal Retirement	1,054,674	1,054,674	1,054,674	0
Interest	369,277	369,277	367,780	1,497
Total Expenditures	34,281,838	33,705,744	31,766,441	1,939,303
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	1,420,228	234,176	1,255,377	1,021,201
OTHER FINANCING SOURCES (USES)				
Disposition of Capital Assets	0	1,497,857	968,872	(528,985)
Transfers In	104,464	129,867	575,004	445,137
Transfers Out	(1,486,970)	(2,013,165)	(2,013,051)	114
Total other financing sources (uses)	(1,382,506)	(385,441)	(469,175)	(83,734)
Net change in fund balances	37,722	(151,265)	786,202	937,467
Fund Balances - beginning	3,200,865	4,103,270	6,068,906	1,965,636
FUND BALANCES - ENDING	\$3,238,587	\$3,952,005	\$6,855,108	\$2,903,103

The accompanying notes are an integral part of this statement

**STATEMENT OF NET ASSETS – PROPRIETARY FUNDS
DECEMBER 31, 2010**

	BUSINESS TYPE ACTIVITIES - COMBINED UTILITY FUNDS	GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE FUNDS
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	8,852,389	4,609,825
Receivables, net		
Customer accounts	1,909,461	1,192
Due from other governments	761,016	0
Inventory	98,408	49,893
Total Current Assets	<u>11,621,274</u>	<u>4,660,910</u>
NONCURRENT ASSETS		
Restricted cash and cash equivalents	683,049	0
Intangible assets	396,085	0
Unamortized debt issue costs	135,461	0
Construction in progress	9,724,406	0
Capital assets, net of depreciation (Note 7)	52,343,703	1,974,657
Total Noncurrent Assets	<u>63,282,704</u>	<u>1,974,657</u>
TOTAL ASSETS	<u>74,903,978</u>	<u>6,635,567</u>
LIABILITIES AND FUND EQUITY		
CURRENT LIABILITIES		
Accounts payable	498,021	10,113
Wages and benefits payable	157,307	13,172
Compensated absences	419,460	40,756
Interest payable	25,993	0
Due to other funds	135,985	0
Due to other governments	289,145	0
Custodial accounts	4,398	0
Deferred revenues	24,461	0
Current portion of long-term debt		
(net of unamortized premiums/discounts)	802,931	0
Other current liabilities	230,797	0
Total Current Liabilities	<u>2,588,498</u>	<u>64,041</u>
NONCURRENT LIABILITIES		
General obligation bonds payable	3,541,635	0
Revenue bonds payable		
(net of unamortized premiums/discounts)	2,371,511	0
Loans payable	2,535,501	0
Compensated absences	0	10,712
Total Noncurrent Liabilities	<u>8,448,647</u>	<u>10,712</u>
TOTAL LIABILITIES	<u>11,037,145</u>	<u>74,753</u>
NET ASSETS		
Invested in capital assets,		
net of related debt	53,273,296	1,974,657
Restricted for debt service	683,049	0
Restricted for customer deposits	4,398	0
Unrestricted	9,906,089	4,586,157
TOTAL NET ASSETS	<u>63,866,832</u>	<u>6,560,814</u>

The accompanying notes are an integral part of this statement

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2010**

	BUSINESS TYPE ACTIVITIES - COMBINED UTILITY FUNDS	GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE FUNDS
OPERATING REVENUES:		
Charges for services	\$11,998,264	\$1,344,657
Rental revenues	46,780	0
Other operating revenues	2,302,495	1,224
Total Operating Revenues	14,347,539	1,345,881
OPERATING EXPENSES:		
Personnel services	3,683,191	288,510
Supplies	6,510,776	462,325
Professional services	447,946	1,004
Insurance	391,610	38,257
Depreciation and amortization	2,459,902	428,410
Total Operating Expenses	13,493,425	1,218,506
Operating Income (Loss)	854,114	127,375
NON-OPERATING REVENUES (EXPENSES):		
Intergovernmental revenues	97,249	0
Interest and investment revenue	25,697	11,665
Judgements and settlements	100	1,039
Gain (loss) on sale/retirement of assets	7,357	21,818
Interest expense	(342,795)	0
Total Non-Operating Revenues (Expenses)	(212,392)	34,522
Income (Loss) Before Contributions and Transfers	641,722	161,897
Capital contributions	1,196,156	0
Transfers in	0	19,221
Transfers out	(62,375)	(1,259,932)
NET INCOME (LOSS)	1,775,503	(1,078,814)
NET EQUITY - BEGINNING	62,091,329	7,639,628
NET EQUITY - ENDING	\$63,866,832	\$6,560,814

The accompanying notes are an integral part of this statement

**STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2010**

Page 1 of 2

	BUSINESS-TYPE ACTIVITIES - COMBINED UTILITY FUNDS	GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE FUNDS
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers and users	\$14,217,474	\$1,345,881
Payments to suppliers	(7,583,991)	(519,525)
Payments to employees	(3,723,279)	(296,858)
NET CASH PROVIDED BY OPERATING ACTIVITIES	2,910,204	529,498
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Receipts from non-capital grants	47,249	0
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	47,249	0
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Principal paid on capital debt	(801,592)	0
Interest paid on capital debt	(308,842)	0
Receipts from capital grants	50,000	0
Proceeds from sale of capital assets	6,003	547,054
Capital contributions	1,201,140	0
Acquisition and construction of capital assets	(3,690,728)	(53,457)
Insurance Proceeds	1,354	1,039
Transfer to other funds	(62,375)	(1,259,932)
Transfers from other funds	0	19,221
NET CASH PROVIDED BY CAPITAL FINANCING ACTIVITIES	(3,605,040)	(746,075)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment income	25,697	11,665
NET CASH PROVIDED BY INVESTING ACTIVITIES	25,697	11,665
Net Increase (Decrease) in Cash and Cash Equivalents	(621,890)	(204,912)
Cash and Cash Equivalents, January 1	10,157,328	4,814,737
CASH AND CASH EQUIVALENTS, DECEMBER 31	\$9,535,438	\$4,609,825
Current Cash and Cash Equivalents	\$8,852,389	\$4,609,825
Restricted Cash and Cash Equivalents	683,049	0
CASH AND CASH EQUIVALENTS, DECEMBER 31	\$9,535,438	\$4,609,825

The accompanying notes are an integral part of this statement

**STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2010**

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RECONCILIATION OF OPERATING INCOME (LOSS) TO NET

CASH PROVIDED (USED) BY OPERATING ACTIVITIES:

Operating income (loss)	\$854,114	\$127,375
Adjustments to Reconcile Operating Income to Net		
Cash Provided (Used) by Operating Activities:		
Depreciation and amortization	2,459,902	428,410
Change in Assets and Liabilities:		
(Increase) decrease in inventories	5,788	5,830
(Increase) decrease in receivables	(16,426)	0
(Increase) decrease in due from other governments	(113,639)	0
Increase (decrease) in accounts and other payables	(205,345)	(23,769)
Increase (decrease) in due to other governments	(92,569)	0
Increase (decrease) in due to funds	(5,920)	0
Increase (decrease) in compensated absences	(40,088)	(8,348)
Increase (decrease) in other current liabilities	64,387	0
TOTAL ADJUSTMENTS	<u>2,056,090</u>	<u>402,123</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$2,910,204</u>	<u>\$529,498</u>

The accompanying notes are an integral part of this statement

**STATEMENT OF FIDUCIARY NET ASSETS
DECEMBER 31, 2010**

	FIREMEN'S PENSION FUND
ASSETS AND OTHER DEBITS	
Cash and cash equivalents	\$272,213
TOTAL ASSETS AND OTHER DEBITS	272,213
LIABILITIES	
Benefits payable	114
Accounts payable	4,779
TOTAL LIABILITIES	4,893
NET ASSETS	
Held in trust for pension benefits and other purposes	\$267,320

The accompanying notes are an integral part of this statement

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2010**

	FIREMEN'S PENSION FUND
ADDITIONS:	
Contributions	
Employer	\$48,023
Fire insurance premiums	44,905
Investment income	
Interest	720
TOTAL ADDITIONS	93,648
DEDUCTIONS:	
Benefits	106,580
Administrative expense	4,699
TOTAL DEDUCTIONS	111,279
CHANGE IN NET ASSETS	(17,631)
NET ASSETS RESERVED FOR EMPLOYEES' PENSION BENEFITS	
Employees' pension benefits, January 1	284,951
NET ASSETS - ENDING	\$267,320

The accompanying notes are an integral part of this statement

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NOTE 1: SIGNIFICANT ACCOUNTING POLICIES

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

REPORTING ENTITY

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

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

Discretely Presented Component Unit

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

A five member board governs the PFD and is appointed to four-year terms by the City Council. The PFD has authority under state law to issue debt, levy certain taxes, and enter into contracts. In 2002 the City Issued Limited Tax General Obligation Bonds for the acquisition, renovation and remodeling of a Performing Arts Center by the PFD in the amount of \$7,015,000. These proceeds were transferred to the PFD. The bonds are a debt of the City and not the PFD; however the PFD is obligated by inter-local agreement to transfer sales tax rebate revenues to the City to help offset the City’s debt service costs over the life of the bonds. More information about the PFD, including complete financial statements, can be obtained from Edmonds Performing Arts Center, c/o Joe McIalwain, 401 Fourth Ave. N. Edmonds, WA 98020.

Blended Component Unit

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

Joint Ventures

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

The City participates in a single joint venture with Snohomish County and other local governments in the Snohomish County Emergency Radio System. See Note 5 for additional information.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component units. Government activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

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

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

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

BASIS OF ACCOUNTING, MEASUREMENT FOCUS AND PRESENTATION OF FINANCIAL STATEMENTS

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary and fiduciary funds. Under this approach, revenues are recorded when earned and expenses 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 revenues as soon as all the eligibility requirements imposed by the providers have been met.

Governmental funds are used to account for activities typically associated with state and local government operations. All governmental funds are accounted for on a spending or "financial flows" measurement focus, which means that typically only current assets and current liabilities are included on the related balance sheet. The operating statements for governmental funds measure changes in financial position, rather than net income; they present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Governmental funds use the modified accrual basis of accounting. On the modified accrual basis, revenues are recorded when susceptible to accrual (i.e. when they are determined to be both measurable and available.) To be considered available, revenues must be collected during the current period or soon enough thereafter to pay current liabilities. For the City of Edmonds, this period is considered to be the first sixty days after the end of the fiscal period. Property taxes, sales taxes, utility taxes, franchise fees, and interest are associated with the current fiscal period and have been recognized as revenues of the current period. Under this method, expenditures are recognized at the time the fund incurs the related liability, with the exception of principal and interest on long-term debt and vacation and sick pay which are recorded when paid.

Major Governmental Funds:

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

Proprietary Fund:

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

The proprietary fund statements distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses result from providing services and delivering goods in connection with principal ongoing operations. The principal operating revenues of the City's utility fund are charges to customers for sales and service. The City also recognizes as operating revenue the portion of utility connection fees intended to recover the cost of connecting new

customers to the water and sewer systems. Operating expenses for enterprise funds include operating and maintenance costs, employee benefit expenses, contracted services, insurance and depreciation on capital assets. All other revenues and expenses are reported as non-operating revenues and expenses.

Internal Service and Fiduciary Funds:

The **Equipment Rental Fund** is an internal service fund used to account for the Fleet Maintenance Division. The Fleet Maintenance Division is responsible for maintaining the City's vehicle fleet.

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

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

Pursuant to Statement No. 20 of the Governmental Accounting Standards Board (GASB), the City reports in accordance with all applicable GASB pronouncements and all FASB Statements and Interpretations, Accounting Principles Board (APB), and Opinions and Accounting Research Bulletins (ARB) issued on or before November 30, 1989 (unless they conflict with or contradict GASB pronouncements).

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

BUDGETS AND BUDGETARY ACCOUNTING

Scope of Budget

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

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

Procedures for Adopting the Original Budget

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

ASSETS, LIABILITIES, AND NET ASSET OR EQUITY

Cash and Equity in Pooled Investments

The City of Edmonds invests all short-term cash surpluses. The City considers all highly-liquid assets, including investment

in the Washington State’s Local Government Investment Pool, and short-term investments with a maturity of three months or less when purchased to be cash equivalents.

Investments

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

Inventories

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

Receivables

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

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

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

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

In 2010, the City levied the following property taxes on an assessed value of \$6,955,482,717. The special levies identified in the table were approved by the voters and are not subject to the limitation listed above.

PURPOSE OF LEVY	LEVY RATE PER \$1,000	TOTAL LEVY AMOUNT
General Government	1.349	\$9,383,000
Emergency Medical Services	0.500	3,477,741
Debt Service on Voter-approved General Obligation Bonds	0.131	853,084
TOTAL CITY LEVY	1.980	\$13,713,825

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

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

Deferred Revenues and Deferred Charges

Deferred revenues include amounts collected before revenue recognition criteria are met because under the modified accrual basis of accounting, they are measurable but not yet available. The deferred items consist primarily of delinquent property taxes, contracts and agreements, special assessments, and amounts due from component unit.

In the proprietary funds the premium or discount and issuance costs of long-term debt are amortized over the life of the debt. For current refunding and advance refunding of revenue bonds, the difference between the reacquisition price and net carrying amount is amortized over the shorter of the remaining life of the old debt or the life of the new bond issues.

Restricted Assets

In accordance with the utility bond resolutions, state law, or other agreements, separate restricted assets have been established. These assets are restricted for specific purposes including the establishment of bond reserve funds, financing the ongoing capital improvement programs of the various utilities, and other purposes. At December 31, 2010 the City had \$683,049 cash in the Enterprise fund restricted for debt service.

Capital Assets

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

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

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

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

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

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

Land and construction in progress are not depreciated. Buildings, equipment, non-building improvements and intangible assets are depreciated using the straight line method, using varying estimated service lives for individual assets and asset classifications depending on particular characteristics of an asset and factors surrounding its anticipated use. Depreciation is

reported as part of the related program expense column on government-wide statement of activities and as a fund expense in the proprietary funds, while not reported in the fund statements of governmental funds. Capital assets are reported net of accumulated depreciation on the government-wide statement of net assets and in the proprietary funds statement of net assets, while not reported in the governmental fund balance sheets. Refer to note 7 for additional information regarding capital assets.

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

<u>Asset Type</u>	<u>Est. Service Life (Yrs)</u>
Buildings	30-50
Improvements other than Buildings	25-60
Infrastructure	20-100
Machinery and Equipment	02-20
Intangible Assets	20-30

Accumulated Compensated Absences

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

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

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

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

Reservations and Designations

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are either not appropriable for expenditures or are legally restricted for a specific future use. The amounts not appropriable for expenditures are reported as fund balance reserved for noncurrent assets, inventories, petty cash, and prepaid items. The amounts legally segregated for specific future uses are reported as fund balance reserved for capital improvements and grants, debt service including judgments and claims, employee benefits, endowments and gifts, employee retirement systems, continuing appropriations, and encumbrances.

In cases where a governmental fund does not have enough available unreserved fund balance, the fund balance reserved for that fund is limited to the extent of the amount available.

NOTE 2 — STEWARDSHIP COMPLIANCE AND ACCOUNTABILITY

There have been no material violations of contract provisions. At December 31, 2010:

- Fund 631 – Transportation Benefit District exceeded the annual budget by \$8,043, this amount was supported by the receipt of \$8,043 in additional fund revenue.

All funds amended expenditure budgets totaled \$81,011,731, which includes \$8,254,042 of supplemental appropriations. Funds with supplemental appropriations during 2010 and the amounts are shown below:

FUND NO.	FUND DESCRIPTION	2010 Original Budget	2010 Supplemental Appropriations	2010 Amended Budget
001	GENERAL FUND	35,768,808	(49,900)	35,718,908
112	COMBINED STREET CONST/IMPROVE	2,332,560	(350,000)	1,982,560
116	BUILDING MAINTENANCE	205,200	249,273	454,473
120	HOTEL/MOTEL TAX REVENUE FUND	77,883	109,000	186,883
122	YOUTH SCHOLARSHIP FUND	3,400	907	4,307
123	TOURISM PROMOTIONAL FUND/ARTS	22,100	1,885	23,985
125	PARK ACQ/IMPROVEMENT	1,190,000	752,000	1,942,000
127	GIFTS CATALOG FUND	750	14,509	15,259
129	SPECIAL PROJECTS FUND	0	242,110	242,110
131	FIRE DONATIONS	0	22,466	22,466
136	PARKS TRUST FUND	0	25,403	25,403
211	LID FUND CONTROL	55,300	58,000	113,300
411	COMBINED UTILITY OPERATION	15,301,171	3,065,983	18,367,154
414	CAPITAL IMPROVEMENTS RESERVE	571,412	2,172,176	2,743,588
511	EQUIPMENT RENTAL FUND	1,702,193	1,190,230	2,892,423
631	TRANSPORTATION BENEFIT DISTRICT	0	750,000	750,000
	Totals	57,230,777	8,254,042	65,484,819

NOTE 3 — DEPOSITS AND INVESTMENTS

Interest rate risk. In accordance with its investment policy, the City manages its exposure to declines in fair values by limiting the weighted average of maturity of its investments to less than four years.

Credit risk. City policy complies with state law which requires all investments of the City's funds be obligations of the U.S. Government, U.S. agency issues, Obligations of the State of Washington, repurchase agreements, prime banker's acceptances, the Washington State Local Government Investment Pool, and time certificates of deposit with authorized Washington State banks. The City held no debt securities as of December 31, 2010.

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

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

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

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

WPDPC to make pro-rata assessments in proportion to the maximum liability of each such depository as it existed on the date of loss.

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

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

Deposits	\$ 2,905,577
Local Government Investment Pool	<u>22,759,839</u>
	<u>\$25,665,416</u>

Financial Statements

	Governmental Activities	Business-type Activities	Total Primary Govt.	Fiduciary Funds	Total
Cash and Cash Equivalents	\$15,857,765	\$8,852,389	\$24,710,154	\$272,213	\$24,982,367
Restricted Cash and Cash Equivalents	0	683,049	683,049	0	683,049
Investments	0	0	0	0	0
	<u>\$15,857,765</u>	<u>\$9,535,438</u>	<u>\$25,393,203</u>	<u>\$272,213</u>	<u>\$25,665,416</u>

NOTE 4 – RECEIVABLES AND PAYABLES

Receivables at December 31, 2010, are as follows:

	Taxes	Customer Accounts	Due From Other Governments	Total
Governmental Activities				
General Fund	\$380,699	\$729,560	\$6,758,668	\$7,868,927
Other Governmental Funds	0	0	473,337	473,337
Internal Service	0	1,192	0	1,192
Total Governmental Activities	<u>\$380,699</u>	<u>\$730,751</u>	<u>\$7,232,005</u>	<u>\$8,343,456</u>
Business-type Activities				
Combined Utility Fund	\$0	\$1,909,461	\$761,016	\$2,670,477
Total Business-type Activities	<u>\$0</u>	<u>\$1,909,461</u>	<u>\$761,016</u>	<u>\$2,670,477</u>

The amount of accounts receivable on the Statement of Net Assets for Governmental Activities includes the customer accounts listed above, as well as, a court receivable in the amount of \$649,720.

Payables at December 31, 2010, are as follows:

	Accounts Payable and Other Current Liabilities	Due to Other Governments	Customer Accounts	Total
Governmental Activities				
General Fund	\$361,749	\$0	\$65,965	\$427,715
Other Governmental Funds	112,970	0	0	112,970
Internal Service	10,113	0	0	10,113
Total Governmental Activities	\$484,832	\$0	\$65,965	\$550,798
Business-type Activities				
Combined Utility Fund	\$733,217	\$289,145	\$0	\$1,022,361
Total Business-type Activities	\$733,217	\$289,145	\$0	\$1,022,361

Lease Receivables

The City receives revenue by leasing land to T-Mobile West Corporation for a cell tower placed on the Five Corners Water Tank Site. The original lease was signed in 1997 for a term of five years and could be renewed for five additional five-year terms. Along with the actual tower lease, there are two sub-leases to co-locate on the tower leased to T-Mobile. The first lease is with Clearwire, LLC and the second lease is with Cingular Wireless. Each of these leases was signed in 1997 for a five-year term and could be renewed for three additional five-year periods.

The City entered into a telecommunications contract in March of 2007 with the Netriver Corporation. The three year contract allows Netriver Corporation to use the City’s fiber optic network. At the end of the three year contract, the agreement shall continue on a month to month basis until the contract is terminated in writing or a new contract is executed.

The City receives revenue from operating leases as a result of renting space in various City buildings. At the Anderson Center, the City has six recreation contracts that allow various organizations to rent out a total of 19 spaces. The recreation leases are renewed annually. The Anderson Center has an original cost of \$3,056,857 and a book value of \$1,592,352. Depreciation expense for 2010 was \$97,604.

The City rents space at the old Public Works building. The City entered into a month-to-month contract with the Edmonds Arts Festival Foundation on November 13, 2009. The Foundations rents three garage bays as part of the City’s Cultural Arts Plan. The City also entered into a ten year lease agreement with the Driftwood Players in December of 2009 to rent administrative office space along with the old crew area space. The old Public Works building has an original cost of \$249,396 and a book value of \$51,775. Depreciation expense for 2010 was \$3,451.

The Edmonds Chamber of Commerce rents space on the first floor of city hall. The contract automatically renews annually unless terminated by the parties. City Hall’s original cost is \$3,910,469 and carries a book value of \$1,921,445. Depreciation expense for 2010 was \$131,756.

The City has two leases which provide recreational services to the citizens. A four year lease agreement was entered into on December 29, 2006 with the Boys and Girls Clubs of Snohomish County. The agreement may be renewed for consecutive five-year terms upon mutual agreement of the parties. The original cost of the Boys and Girls Clubs of Snohomish County is \$85,570 and is fully depreciated. A lease agreement was entered into with the South County Senior Center, Inc on December 1, 2009. The term of the lease is for eleven years and is automatically renewable for two additional five-year terms for a total of twenty-one years. The Senior Center original cost is \$1,060,523 and carries a book value of \$144,098. Depreciation expense for 2010 was \$30,770.

In July of 2009 a one year lease was signed with Shorts ‘n Slippas, LLC for the organization to run a concession stand on the public right of way.

In 2010, the General Fund received \$168,866 and the Enterprise Fund received \$46,780 in rental income.

NOTE 5 — JOINT VENTURES

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

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

The Snohomish County Emergency Radio System was created by agreement under the Interlocal Cooperation Act (RCW 39.34) between The City of Edmonds, Snohomish County and various other cities and political districts. The purpose of the venture is to equip and operate a radio system primarily for the use of public safety agencies. The City of Edmonds has an 8% interest in the equity and operations of the venture. The City’s share of the assets and fund equity as of 12/31/2010 was \$577,208. The venture appears to be accumulating significant resources, and is not experiencing any fiscal stress that would cause an additional financial burden on the participating governments.

NOTE 6 — INTERFUND BALANCES AND TRANSFERS

There was one interfund balance as of December 31, 2010. It was for the transfer of utility tax revenues from the Utility Fund to the General Fund for services rendered.

Interfund transfers are the flow of assets without a reciprocal return of assets, goods or services. The City uses transfers to 1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and 2) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. There were no significant transfers in 2010. The difference between the following table and the Revenues, Expenditures, and Changes in Fund Balance is due to the transfer between the General Fund and the Firemen’s Pension Fund, which is not included in the table below. Interfund activity for the year is as follows:

	Transfers Out					
	Transfers In	General	Other Governmental	Internal Service	Enterprise	Total
General Fund	\$575,004	\$0	\$49,767	\$525,237	\$0	\$575,004
Other Governmental	2,922,266	1,945,807	179,389	734,695	62,375	\$2,922,266
Internal Service	19,221	19,221	0	0	0	\$19,221
Total	\$3,516,491	\$1,965,028	\$229,156	\$1,259,932	\$62,375	\$3,516,491

NOTE 7 — CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2010 was as follows:

Governmental Activities

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$14,530,663	\$0	\$0	\$14,530,663
Construction in Progress	9,690,411	1,927,878	(4,517,308)	7,100,980
Total capital assets, not being depreciated:	24,221,074	1,927,878	(4,517,308)	21,631,643
Capital assets, being depreciated:				
Building	25,479,908	0	0	25,479,908
Improvements other than buildings	8,816,896	4,714,713	0	13,531,609
Infrastructure	54,326,213	0	0	54,326,213
Machinery and Equipment	9,963,914	53,457	(2,852,433)	7,164,938
Total capital assets being depreciated:	98,586,931	4,768,170	(2,852,433)	100,502,668
Less accumulated depreciation for:				
Buildings	(10,979,817)	(858,203)	0	(11,838,020)
Improvements other than buildings	(5,634,761)	(259,640)	0	(5,894,402)
Infrastructure	(23,884,537)	(2,380,778)	0	(26,265,315)
Machinery and Equipment	(6,557,468)	(528,076)	2,306,087	(4,779,457)
Total accumulated depreciation:	(47,056,584)	(4,026,697)	2,306,087	(48,777,194)
Total capital assets, being depreciated, net:	51,530,347	741,473	(546,347)	51,725,473
Governmental activities capital assets, net:	\$75,751,421	\$2,669,350	(\$5,063,655)	\$73,357,117

Business-type Activities

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$1,126,723	\$1,696	\$0	\$1,128,419
Construction in Progress	8,330,208	3,534,125	(2,139,926)	9,724,406
Total capital assets, not being depreciated:	9,456,931	3,535,821	(2,139,926)	10,852,826
Capital assets, being depreciated:				
Building	36,724,796	0	0	36,724,796
Improvements other than buildings	45,683,643	2,284,344	0	47,967,987
Machinery and Equipment	860,940	16,619	0	877,559
Intangible Assets	1,250,000	0	0	1,250,000
Total capital assets being depreciated:	84,519,379	2,300,963	0	86,820,342
Less accumulated depreciation for:				
Buildings	(13,188,973)	(705,909)	0	(13,894,882)
Improvements other than buildings	(18,186,886)	(1,666,318)	0	(19,853,204)
Machinery and Equipment	(569,329)	(37,643)	0	(606,971)
Intangible Assets	(803,883)	(50,032)	0	(853,915)
Total accumulated depreciation:	(32,749,071)	(2,459,902)	0	(35,208,973)
Total capital assets, being depreciated, net:	51,770,309	(158,939)	0	51,611,369
Business activities capital assets, net:	\$61,227,239	\$3,376,882	(\$2,139,926)	\$62,464,195

Depreciation Expense by Function**GOVERNMENTAL ACTIVITIES**

General government	\$752,838
Public safety	304,055
Culture and recreation	146,360
Transportation	2,388,370
Physical Environment	6,665
Internal service	428,410
Total depreciation expense - Governmental Activities	<u>\$4,026,697</u>

BUSINESS-TYPE ACTIVITIES

Stormwater	\$225,910
Water	486,844
Sewer	412,483
Wastewater Treatment	1,334,665
Total depreciation expense - Business Type Activities	<u>\$2,459,902</u>

NOTE 8 – PENSION PLAN

Substantially all city full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit 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 by writing to: 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, and Amendment of GASB Statements No. 25 and No 27.

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

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

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; judges of district and municipal courts; and employees of local governments.

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 participants 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 defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. PERS retirement benefit provisions are established in state statute and may be amended only by the State Legislature.

PERS Plan 1 members are vested after the completion of five years of eligible service. Plan 1 members are eligible for retirement at any age 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 annual benefit is two percent of the average final compensation (AFC) per year of service, capped at 60 percent. The AFC is based on the greatest compensation during any 24 eligible consecutive compensation months. Plan 1 members who retire from inactive status prior to the age of 65 may receive actuarially reduced benefits. The benefit is actuarially reduced to reflect the choice of a survivor option. A cost-of-living allowance (COLA) is granted at age 66 based upon years of service times the COLA amount, increased by three percent annually. Plan 1 members may also elect to receive an additional 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.

Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members may retire at the age of 65 with five years of service with an allowance of two percent of the AFC per year of service. The AFC is based on the greatest compensation during any eligible consecutive 60-month period. Plan 2 retirements prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a three percent per year reduction applies; otherwise an actuarial reduction will apply. The benefit is also actuarially reduced 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.

Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. The defined benefit portion provides a benefit calculated at one percent of the AFC per year of service. The AFC is based on the greatest compensation during any eligible consecutive 60-month period. 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, if twelve months of that service are earned after age 44; or after five service 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 service. Vested Plan 3 members are eligible to retire with a full benefits at age 65, or at age 55 with 10 years of service. Plan 3 members who retire prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a three percent per year reduction applies; otherwise an actuarial reduction will apply. The benefit is also actuarially reduced to reflect the choice of a survivor option. There is no cap on years of service credit; and Plan 3 provides the same cost-of-living allowance as Plan 2.

The defined contribution portion can be distributed in accordance with an option selected by the member, either as a lump sum or pursuant to other options authorized by the Employee Retirement Benefits Board.

Judicial Benefit Multiplier

Beginning January 1, 2007 through December 31, 2007, judicial members of PERS may choose to participate in the Judicial Benefit Multiplier Program (JBM). 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% multiplier. The benefit would be capped at 75% of AFC. Judges in PERS Plan 3 could elect a 1.6% of pay per year of service benefit, capped at 37.5% of average compensation.

Members who choose 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%, pay higher contributions, stop contributing to the Judicial Retirement Account (JRA), 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; continue to participate in JRA, if applicable; never be a participant in the JBM Program; and continue to pay contributions at the regular PERS rate.

Newly elected or appointed justices and judges who and choose to become PERS members on or after January 1, 2007, or who had not previously opted into PERS membership, are required to participate in the JPM 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 1,189 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2009:

Retirees and Beneficiaries Receiving Benefits	74,857
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	28,074
Active Plan Members Vested	105,339
Active Plan Members Nonvested	53,896
Total	262,166

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 6 percent for state agencies and local government unit employees, and 7.5 percent for state government elected officers. 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. The Employee Retirement Benefits Board sets Plan 3 employee contribution rates. Six rate options are available ranging from 5 to 15 percent; 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, 2010, were as follows:

Members not participating in JPM:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	5.31%**	5.31%	5.31%***
Employee	6.00%****	3.90%****	*****

- * The employer rates include the employer administrative expense fee currently set at 0.16%.
- ** The employer rate for state elected officials is 7.89% for Plan 1 and 5.31% 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 3.90% 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*	7.81%	7.81%	7.81%**
Employer-Local Government*	5.31%	5.31%	5.31%**
Employee-State Agency	9.76%	7.25%	7.50%***
Employee-Local Government	12.26%	9.75%	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 as follows:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2010	\$22,090	\$470,368	\$45,011
2009	38,902	584,364	58,637
2008	45,903	595,203	62,253

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

Plan Description

LEOFF is a cost-sharing multiple-employer retirement system comprised of two separate defined benefit plans. LEOFF participants who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 are Plan 2 members. Membership in the system includes all full-time, fully compensated, local law enforcement officers, firefighters and, as of July 24, 2005, those emergency medical technicians who were given the option and chose LEOFF Plan 2 membership. LEOFF membership is comprised primarily of non-state employees, with the Department of Fish and Wildlife enforcement officers, who were first included prospectively effective July 27, 2003, being an exception.

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 defined benefit 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. LEOFF retirement benefit provisions are established in state statute and may be amended by the State Legislature.

LEOFF Plan 1 members are vested after completion of five years of eligible service. Plan 1 members are eligible for retirement with five years of service at the age of 50. The benefit per year of service calculated as a percent of final average salary (FAS) is as follows:

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

The FAS is the basic monthly salary received at the time of retirement, provided a member has held the same position or rank for 12 months preceding the date of retirement. Otherwise, it is the average of the highest consecutive 24 months’ salary within the last 10 years of service. A cost-of-living allowance is granted (based on the Consumer Price Index).

LEOFF Plan 2 members are vested after completion 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, with an allowance of two percent of the FAS per year of service. The FAS is based on the highest consecutive 60 months. Plan 2 retirements prior to the age of 53 receive reduced benefits. Benefits are actuarially reduced for each year that the benefit commences prior to age 53 and to reflect the choice of a survivor option. There is no cap on years of service credit; and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually.

There are 575 participating employers in LEOFF. Membership in LEOFF consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2009:

Retirees and Beneficiaries Receiving Benefits	9,454
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	674
Active Plan Members Vested	13,363
Active Plan Members Nonvested	3,944
Total	27,435

Funding Policy

Starting on July 1, 2000, LEOFF Plan 1 employers and employees 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 General Fund to supplement the current service liability and fund the prior service costs of Plan 2 in accordance with the requirements 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 statute.

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2010, were as follows:

	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 as follows:

	LEOFF Plan 1	LEOFF Plan 2
2010	\$0	\$274,168
2009	\$0	566,301
2008	0	543,787

FIREMEN’S PENSION

Plan Description

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

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

This system is a closed, single-employer, defined benefit pension system. All City firefighters who served before March 1, 1970 are participants of this pension fund. Benefits are established in accordance with Revised Code of Washington (RCW) 41.18 and 41.20. At December 31, 2010, there were five retirees receiving pension and medical benefits from this fund.

Firefighters hired between March 1, 1970 and September 30, 1977 are members of the LEOFF 1 pension system and are also eligible for a supplemental retirement benefit plus health benefits under the City plan. Generally, benefits under the LEOFF 1 retirement benefit system are greater than or equal to the retirement benefits under the City plan. However, should the benefits under the old law exceed those under LEOFF 1, the City becomes liable for the excess benefits. As such, the laws require the payment of excess benefits only and do not require a specific contribution rate by the City. At December 31, 2010 there were 23 retirees receiving medical benefits. These benefits were paid from the LEOFF 1 Retiree Medical Reserve Fund.

Funding Policy and Funding Status

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

Summary of Significant Accounting Policies

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

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

Concentration of Investments

At December 31, 2010 the Fire Pension Fund did not hold any investments. The net pension obligation has been recorded as a noncurrent liability on the City's government-wide statement of net assets.

THREE YEAR TREND INFORMATION

<u>Fiscal Year Ending 12/31</u>	<u>Annual Pension Cost (APC)</u>	<u>Contribution as a Percentage of APC</u>	<u>Net Pension Obligation (NPO)</u>
2008	24,383	163	174,655
2009	35,918	93	176,990
2010	35,461	88	181,254

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

	<u>12/31/2008</u>	<u>12/31/2009</u>	<u>12/31/2010</u>
1. Annual Normal Cost (BOY)	\$0	\$0	\$0
2. Amortization of UAAL (BOY)	27,266	39,330	39,330
3. Interest to EOY [(1)+(2)]x(i)*	1,363	1,573	1,573
4. Annual Required Contribution (ARC) at EOY [(1)+(2)+(3)]	\$28,629	\$40,903	40,903
5. Interest on NPO	\$9,499	\$6,986	\$7,080
6. Adjustment to ARC	13,745	11,971	12,522
7. Annual pension cost (APC) [(4)+(5)-(6)]	\$24,383	\$35,918	\$35,461
8. Employer Contributions**	39,702	33,583	31,197
9. Change in NPO [(7)-(8)]	(15,319)	2,335	4,264
10. NPO at BOY [(11) prior year]	\$189,974	\$174,655	\$176,990
11. NPO at EOY [(9)+(10)]	\$174,655	\$176,990	\$181,254

* 'i' is the assumed interest rate that year: 5.0% in 2008, 4.0% in 2009, 4.0% in 2010.

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

Actuarial Information

On January 1 2009, Milliman Inc., actuaries and consultants, completed the Firemen's Pension Fund Actuarial valuation. This valuation was updated on May 26, 2010 and August 9, 2011. In order to comply with reporting requirements, they

computed the annual required contribution (ARC) using the Entry Age Cost Normal Actuarial Method.

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

Significant actuarial assumptions used in the valuation include:

- 4.0 percent investment return, compounded annually
- 3.5 percent annual salary increase
- 2.5 percent growth in fire insurance premium
- 2.5 percent increase in consumer price index
- 9.0 percent increase in medical inflation rate, trending down to 6.1 percent in 2017
- 5.0 percent increase in long term care inflation rate
- Plan assets are valued at market value

Prior actuarial studies used 5.0 percent investment return and a 3.0 percent growth in the fire insurance premium. There were no material changes to the benefit provisions, actuarial funding method, or other significant factors that affect required contributions.

MUNICIPAL EMPLOYEES BENEFITS TRUST (MEBT)

Full- and qualifying part-time City employees participate in the City-defined contribution plan. By majority vote, City employees approved the City's withdrawal from the Social Security System pursuant to 2 U.S.C.A., Sec. 418 (g) effective July 1, 1977. City employees who customarily work 1,000 or more hours per year and who otherwise would be eligible for Social Security coverage and benefits are required to participate. Both the City and participants are required to contribute an amount equal to the current Federal Insurance Contributions Act (FICA) tax rate. The City's contribution for fiscal year 2010 was \$983,308 which represents its full liability.

For the year ending December 31, 2010, the City's covered payroll was \$15,834,103.94. The City's total current year payroll for all employees is \$15,191,748.24. No significant benefit changes occurred in 2010.

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

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

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

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

NOTE 9 – OTHER POST EMPLOYMENT BENEFITS (OPEB)

In addition to providing pension benefits described under “Fireman’s Pension,” the City provides post-employment health care benefits. In accordance with RCW 41.26.150, all employees who become eligible after age 50 or become disabled while employed with at least five years of service in the LEOFF I System are eligible. In addition to the 12 firefighters referenced in the Fireman’s Pension Fund there currently 25 retired police officers who meet the eligibility requirements. Under authorization of the Disability Board, the City pays medical insurance premiums and medical expenses including long-term care. Post-employment health care benefits are being funded on a pay as you go basis. The retiree does not contribute towards the cost of his/her medical care. Post-employment health care costs of \$382,198 and long-term care costs of \$62,471 were reported in the LEOFF 1 Medical Reserve Fund 009. At December 31, 2010 there was \$428,321.75 of Cash and cash equivalents available to pay benefits.

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

Fiscal Year Ending 12/31	Annual OPEB Cost	Contribution as a Percentage of Annual OPEB Cost	Net OPEB Obligation
2008	\$560,511	79%	208,516
2009	589,639	81%	319,076
2010	587,305	75%	464,517

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

	<u>12/31/2008</u>	<u>12/31/2009</u>	<u>12/31/2010</u>
1. Annual Normal Cost (BOY)	\$0	\$0	\$0
2. Amortization of UAAL (BOY)	534,959	570,510	570,510
3. Interest to EOY [(1)+(2)]x(i)*	26,748	22,820	22,820
4. Annual Required Contribution (ARC) at EOY [(1)+(2)+(3)]	\$561,707	\$593,330	\$593,330
5. Interest on Net OPEB Obligation	\$4,635	\$8,341	\$12,763
6. Adjustment to ARC	5,831	12,032	18,788
7. Annual pension cost (APC) [(4)+(5)-(6)]	\$560,511	\$589,639	\$587,305
8. Employer Contributions	444,701	479,076	441,864
9. Change in Net OPEB Obligation [(7)-(8)]	115,810	110,563	145,441
10. Net OPEB Obligation at BOY [(11) prior year]	\$92,703	\$208,513	\$319,076
11. Net OPEB Obligation at EOY [(9)+(10)]	\$208,513	\$319,076	\$464,517

* 'i' is the assumed interest rate that year: 5.0% in 2008, 4.0% in 2009, 4.0% in 2010.

Actuarial Information

GASB Statement 45, Accounting and Financial Reporting by Employers for Post-employment Benefits other than Pensions requires the disclosure of the employer liability for retiree medical subsidies and other post-employment benefits. On January 1 2009, Milliman Inc., actuaries and consultants, completed an Actuarial valuation. In order to comply with reporting requirements, they computed the annual required contribution (ARC) using the Entry Age Cost Normal Actuarial Method.

This valuation was updated on May 26, 2010 and on August 9, 2011.

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

Significant actuarial assumptions used in the valuation include:

- 4.0 percent investment return, compounded annually
- 2.5 percent increase in consumer price index
- 9.0 percent increase in medical inflation rate, trending down to 6.1 percent in 2017
- 5.0 percent increase in long term care inflation rate
- Asset valuation method N/A

ASSOCIATION OF WASHINGTON CITIES EMPLOYEE BENEFIT TRUST (TRUST)

Trust Description. The City is a Participating Employer in the Association of Washington Cities Employee Benefit Trust, a cost-sharing multiple-employer welfare benefit plan administered by the Association of Washington Cities. The Trust provides medical benefits to certain eligible retired employees of the Participating Employers and their eligible family members. Under Article VII of the Trust document, the Trustees have the authority and power to amend the amount and nature of the medical and other benefits provided by the Trust. The Trust issues a publicly available financial report that includes financial statements and required supplementary information for the Trust. That report, along with a copy of the Trust document, may be obtained by writing to Trust at 1076 Franklin Street SE, Olympia, WA 98501-1346.

Funding Policy. The Trust provides that contribution requirements of Participating Employers and of participating employees, retirees and other beneficiaries, if any, are established and may be amended by the Board of Trustees of the Trust. Retirees of the City receiving medical benefits from the Trust contribute \$668.43 per month for non-Medicare enrolled retiree-only coverage, \$1,339.17 for non-Medicare enrolled retiree and spouse coverage, \$364.82 for Medicare enrolled retiree and non-Medicare enrolled spouse and \$731.95 for Medicare enrolled retiree and spouse coverage.

Participating Employers are contractually required to contribute at a rate assessed each year by the Trust. The required contribution rate expressed as a percentage of current year covered payroll is 17.9 percent. The City's contribution to the Trust for the year ended December 31, 2010 was \$2,881,148, which equaled the required contribution for the year.

Retiring employees from a Participating Employer have several retiree medical plans to choose from. The AWC Trust works directly with the retired employee, and no monies pass through the former employer. Additionally, the AWC Trust pools the health care costs of the retiree medical programs, and rates the programs accordingly. Currently, the AWC Trust Board of Trustees have committed to a retiree medical plan subsidy of 25% which is drawn from the accumulated medical reserve fund. The medical reserves have accumulated over the years from excess premium contributions of employers, active employees and retirees in favorable claims years. The Trust Board of Trustees can change their retiree medical plan subsidy policy in any given year.

NOTE 10 — LONG-TERM DEBT

The following tables summarize City long-term debt transactions for the year ended December 31, 2010:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities					
Bonds payable:					
General obligation bonds	\$18,719,224	\$0	(\$1,561,818)	\$17,157,406	\$1,637,205
Total bonds payable:	18,719,224	0	(1,561,818)	17,157,406	1,637,205
Compensated absences	3,128,167	2,045,441	(2,538,623)	2,634,985	2,589,395
Capital contracts	1,546,238	0	(155,367)	1,390,871	161,009
Public Works Trust Loan	1,112,497	0	(72,201)	1,040,296	72,201
Governmental activity long-term liabilities	<u>\$24,506,126</u>	<u>\$2,045,441</u>	<u>(\$4,328,009)</u>	<u>\$22,223,558</u>	<u>\$4,459,810</u>

Internal service funds predominately serve the governmental funds. Accordingly, the December 31, 2010 long-term liabilities for the fund are included as part of the above totals for governmental activities. At year end, the balance for the Internal Service Fund was for compensated absences in the amount of \$51,458.

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Business-type activities					
Bonds Payable:					
General obligation bonds	\$3,988,915	\$0	(\$221,320)	\$3,767,595	\$212,795
Revenue bonds	3,255,000	0	(385,000)	2,870,000	400,000
Less deferred amounts:					
For issuance premiums	30,579	0	(2,308)	28,271	2,308
For issuance discount	(21,834)	0	2,601	(19,233)	(2,601)
On refunding	(166,673)	0	22,845	(143,828)	(22,845)
Total bonds payable:	7,085,987	0	(583,182)	6,502,805	589,657
Compensated absences	467,805	453,602	(501,948)	419,459	419,460
Public Works Trust Loan	2,944,046	0	(195,272)	2,748,774	213,273
Business-type activity long-term liabilities	<u>\$10,497,838</u>	<u>\$453,602</u>	<u>(\$1,280,402)</u>	<u>\$9,671,038</u>	<u>\$1,222,390</u>

General Obligation Bonds

The City issues general obligation bonds to provide funding for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. The City issues two types of general obligation bonds, Limited Tax General Obligation bonds (LTGO) and Unlimited Tax General Obligation bonds (UTGO). General obligation bonds have been issued for both governmental and business-type activities. At December 31, 2010 the City's balance of General obligation bonds outstanding was \$20,925,001. Of this amount, \$3,767,595 is an obligation of the Utility fund.

	ORIGINAL AMOUNT ISSUED	DATE OF ORIGINAL ISSUE	DATE OF FINAL MATURITY	INT. RATES	AMOUNT OF INSTALLMENTS	BALANCE 12/31/10
GENERAL OBLIGATION BONDS						
<u>General Government</u>						
1998 LTGO Ref. Bonds - Capital Improvements	4,163,712	12/01/98	12/01/14	4.00/4.40	274,000 - 473,994	1,668,274
2001 LTGO Bonds - Capital Improvements	2,545,000	09/01/01	12/01/21	3.00/4.90	87,759 - 188,055	1,654,884
2001 LTGO Bonds - Park Acquisition	2,260,000	12/15/01	12/01/21	2.65/5.45	70,000 - 175,000	1,495,000
2002 LTGO Bonds - Performing Arts Center	7,015,000	11/13/02	12/01/26	3.00/4.90	50,000 - 460,000	6,155,000
2003 UTGO Ref. Bonds - Public Safety Buildings	7,000,000	07/01/03	12/01/16	2.00/3.50	70,000 - 960,000	4,990,000
2005 LTGO Bonds - Phone System	120,000	02/23/05	12/01/10	3.53	14,685 - 22,883	(0)
2007 LTGO Bonds - Capital Improvements	1,384,904	03/15/07	03/15/26	3.65/3.95	130,000-370,000	1,194,248
<u>Business-type Activities</u>						
1998 LTGO Ref. Bonds - Capital Improvements	316,288	09/01/01	12/01/21	3.00/4.90	20,827 - 36,006	126,727
2001 LTGO Bonds - Capital Improvements	500,000	12/01/98	12/01/14	4.00/4.40	17,241 - 36,945	325,116
2005 LTGO Bonds - Phone System	80,000	02/23/05	12/01/10	3.53	9,789 - 15,255	0
2007 LTGO Bonds - Capital Improvements	3,845,096	03/15/07	03/15/26	3.65/3.95	130,000-370,000	3,315,752
TOTAL GENERAL OBLIGATION BONDS	<u>\$29,230,000</u>					<u>\$20,925,001</u>

Public Works Trust Fund Loans

The City has three existing Public Works Trust Fund loans that are general government obligations. Two of the loans are for the design (\$340,000) and construction (\$400,000) of the 220th Street Improvement. To date, the City has drawn down the full \$740,000 for the 220th Street Improvement project. The third loan funds the 100th Avenue West Right of Way Stabilization project. The amount drawn on the loan as of 12/31/2010 was \$624,750. The interest for these loans shall be 1/2% per annum on the outstanding principal balance and the term of the loan shall not exceed 20 years.

The City has five Public Works Trust Fund loans that are business-type obligations. In 2002, the City secured a \$1,347,250 Public Works Trust Fund loan from the State of Washington to finance the 2002 Sanitary Sewer System Improvements. The scope of the improvements included two projects that had been identified as the City's highest priority wastewater collection system projects: the Edmonds Way Interceptor Rehabilitation Project and the Rehabilitation of Lift Station No. 1. To date, the City has drawn down the full \$1,347,250 from the loan. The interest for this loan shall be 1/2% per annum on the outstanding principal balance and the term of the loan shall not exceed 20 years.

In 2004, the City secured two Public Works Trust Fund loans. The first loan is for the Five Corners Water Pump Station project in the amount of \$408,000. As of 12/31/2010, the City has drawn down \$387,600 from this loan. The second loan (\$605,625) is for Stormwater Outfall improvements of which the City has drawn down the full \$605,625 from the loan. The interest for these loans shall be 1/2% per annum on the outstanding principal balance and the term of the loan shall not exceed 20 years.

In 2005 the City secured a Public Works Trust Fund loan in the amount of \$1,216,902. A total of \$1,156,057 has been drawn down on this loan. The interest for this loan shall be 1/2% per annum on the outstanding principal balance and the term of the loan shall not exceed 20 years.

A new loan was secured in 2009 in the amount of \$100,000 to pay for the Water Comprehensive Plan of which \$90,000 has been drawn down.

	ORIGINAL AMOUNT ISSUED	DATE OF ORIGINAL ISSUE	DATE OF FINAL MATURITY	INT. RATES	AMOUNT OF INSTALLMENTS	BALANCE 12/31/10
PUBLIC WORKS TRUST FUND LOANS						
General Government						
P W Trust Fund Loan - Street Construction	\$340,000	01/06/03	06/30/22	0.50	\$18,143	\$217,720
P W Trust Fund Loan - Street Construction	400,000	09/13/04	06/30/24	0.50	20,000	296,471
P W Trust Fund Loan - Street Construction	624,750	05/24/06	05/24/26	0.50	6,248	526,105
Business-type Activities						
P W Trust Fund Loan - Trt. Plant/Sewer Improv.	1,347,250	07/17/02	06/30/22	0.50	67,363	855,900
P W Trust Fund Loan - Water Improvements	408,000	06/08/04	06/30/24	0.50	4,295	339,776
P W Trust Fund Loan - Storm Improvements	605,625	06/08/04	06/30/24	0.50	31,964	448,876
P W Trust Fund Loan - Sewer Improvements	1,216,902	05/23/05	06/30/25	0.50	12,169	1,014,222
P W Trust Fund Loan - 09 Water Improvements	100,000	03/03/09	07/01/15	0.00	18,000	90,000
TOTAL PUBLIC WORKS TRUST FUND LOANS	<u>\$5,042,527</u>					<u>\$3,789,070</u>

Capital Contracts

Governmental Activities Long-term Debt includes the following Capital Contracts:

In 1996 the City entered into an agreement with Snohomish County for a 20-year purchase contract for a fire station. The purchase price of the fire station is \$1,136,115 at 1.00 percent interest to be paid in annual installments for 20 years. No collateral was pledged.

In 2000 the City entered into an agreement with Snohomish County for a 20-year contract of financial assistance for public safety radio equipment. No collateral was pledged. For more information on this agreement, refer to Note 5 - Joint Ventures.

	ORIGINAL AMOUNT ISSUED	DATE OF ORIGINAL ISSUE	DATE OF FINAL MATURITY	INT. RATES	AMOUNT OF INSTALLMENTS	BALANCE 12/31/10
CAPITAL CONTRACTS						
1996 Note - Fire Station #10	\$1,136,115	01/01/96	01/01/15	1.00	\$54,592 - \$65,300	\$320,097
2005 Contract - Public Safety Radio Equipment	1,595,046	06/01/05	12/01/19	3.00/5.00	77,457 - 141,288	1,070,774
TOTAL CAPITAL CONTRACTS	<u>\$2,731,161</u>					<u>\$1,390,871</u>

Revenue Bonds

The City also issues revenue bonds to provide financing for the capital programs of the City Utility Construction/Improvement fund, which includes Water, Sewer, Stormwater and Wastewater. The City does not pledge its full faith and credit for the payment of debt service on revenue bonds. Payment of debt service on the bonds issued for each utility is derived solely from the revenues generated by the related utility.

	ORIGINAL AMOUNT ISSUED	DATE OF ORIGINAL ISSUE	DATE OF FINAL MATURITY	INT. RATES	AMOUNT OF INSTALLMENTS	BALANCE 12/31/10
REVENUE BONDS						
1998 Water/Sewer Refunding Bonds	\$2,420,000	03/01/98	12/01/13	4.00-4.85	\$235,000 - \$1,290,000	\$825,000
2003 Water/Sewer Refunding Bonds	7,875,000	04/01/03	12/01/22	2.00/4.45	130,000 - 1,045,000	2,045,000
TOTAL REVENUE BONDS	<u>\$10,295,000</u>					<u>\$2,870,000</u>

Debt Limit

RCW 39.36.020 provides cities with three segments of debt capacity, each equal to two and one-half percent of the city's

assessed valuation, for a total of seven and one-half percent (7.5%). Allowable uses of these segments are as follows:

Segment 1 – General Governmental Purposes

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

Segment 2 – City-Owned Water and Sewer Purposes

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

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

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

Debt Limit Capacity

	Governmental Purposes		Water & Sewer Purposes	Park & Capital Facilities
	Without Vote (Councilmanic) 1.5%	With Vote 2.5%	With Vote 2.5%	With Vote 2.5%
Legal Limits	\$96,498,883	\$64,332,589	\$160,831,471	\$160,831,471
Net Outstanding Indebtedness	(21,119,163)	(4,990,000)	0	0
Margin Available	\$75,379,720	\$59,342,589	\$160,831,471	\$160,831,471

Refunded Debt

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

Debt Service to Maturity

The requirements to amortize the long-term debt as of December 31, 2010 are presented below. Debt service for the LTGO bonds are met by the General Fund and certain special revenue funds, and reimbursements from proprietary funds of the City with the exception of the 2002 LTGO issue. The PFD is obligated by inter-local agreement to transfer sales tax rebate revenues to the City to help offset the City’s debt service costs over the life of these bonds (refer to Note 1 – Reporting Entity). Debt service for the UTGO bonds are covered by property tax levies that authorized the bond issues. Debt service for

the revenue bonds is paid by the Utility Fund. Debt service for the capital contracts is expended from the General Fund. In prior years the City has typically used the General Fund to liquidate long-term liabilities other than debt.

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

Year	GOVERNMENTAL ACTIVITIES			BUSINESS TYPE ACTIVITIES		
	Principal	Interest	Total	Principal	Interest	Total
2011	1,870,415	776,145	2,646,560	826,067	284,431	1,110,498
2012	1,965,761	708,925	2,674,685	830,652	257,819	1,088,471
2013	1,940,390	637,225	2,577,615	866,677	230,320	1,096,997
2014	2,047,535	567,437	2,614,972	595,909	201,139	797,048
2015	1,767,798	492,535	2,260,333	581,310	185,177	766,487
2016-2020	5,576,765	1,624,502	7,201,267	3,041,327	681,384	3,722,712
2021-2025	3,829,051	627,743	4,456,794	2,372,402	237,572	2,609,974
2026-2030	590,858	26,574	617,432	272,024	10,745	282,769
	<u>\$19,588,573</u>	<u>\$5,461,085</u>	<u>\$25,049,658</u>	<u>\$9,386,369</u>	<u>\$2,088,586</u>	<u>\$11,474,955</u>

At December 31, 2010 the City had \$683,049 in the Enterprise fund available for debt service.

Arbitrage

The Federal Tax Reform Act of 1986 requires tax-exempt debt issuers to pay investment income received at yields that exceed the issuer's borrowing rates to the United States Treasury. The liability is recorded at present value and payable every five years or 60 days after defeasance of the debt. At December 31, 2010, the City of Edmonds had no arbitrage liability.

NOTE 11 – SHORT-TERM DEBT

The City did not issue short-term debt during 2010 and has no outstanding short-term debt at December 31, 2010.

NOTE 12 — CONTINGENCIES AND LITIGATIONS

The City is exposed to the risk of loss from torts, theft of or damage to assets, business interruption, errors or omissions, law enforcement actions, contractual actions, natural disasters, environmental regulations, and other third-party liabilities. The City also bears the risk of loss for job-related illnesses and injuries to employees. The City has insurance policies to cover these general liability risks with the Washington Cities Insurance Authority (WCIA). Refer to Note 13 for more detailed information on risk management.

There are several disputes and pending lawsuits in which the City is named. The City Attorney estimates the potential claims against the City not covered by insurance resulting from such disputes and litigation could range from \$420,000 to \$1,400,000 and estimates the likelihood of this range is from reasonably possible to remote.

The City participates in a number of federal- and state-assisted programs. These programs are subject to audit by the governmental unit administering the program or their representative. Such audits could result in requests for reimbursement of disallowed expenditures. Based on audit history, City management believes that any disallowance will be immaterial. The City Council approved a guaranty of a borrowing of the Edmonds Public Facilities District for up to \$7 million. This guaranty represents an outstanding contingent liability of the City.

NOTE 13 — RISK MANAGEMENT

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

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 145 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 sub-limits 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.

An investment committee, using investment brokers, produces additional revenue by investment of WCIA's assets in financial instruments which comply with all State guidelines. These revenues directly offset portions of the membership's annual assessment.

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.

In the past three years, settlements have not exceeded insurance coverage.

NOTE 14 — COMMITMENTS

The City has several capital improvement projects in progress. As of December 31, 2010, the City's outstanding contractual obligations, which include construction and engineering contracts, are summarized below:

Contract Name	Original Amount	Expenditures to Date	Remaining Commitment
12th Ave N Storm System Improvements	26,960	18,421	8,539
2003 Water Supply System Improvements	328,809	328,651	158
2009 Water Comprehensive Plan	169,509	168,831	678
226th Street SW Walkway Project	40,984	39,912	1,072
76th Ave W/75th Pl W Walkway	2,717,776	2,673,396	44,380
Alderwood Intertie & Reservoir Imprv.	49,124	48,002	1,122
BNSF Double Track Project	1,296,241	749,579	546,662
Caspers/9th Ave/Puget Drive Walkway	606,298	579,566	26,732
Comprehensive Transportation Plan Update	227,913	219,104	8,809
Dayton Street Plaza Design	16,500	15,652	848
Edmonds Interurban Trail	498,760	454,921	43,839
Fourth Ave Cultural Corridor	100,000	98,200	1,800
Illicit Discharge, Detection & Elimination Plan	14,492	12,152	2,340
Lift Station 2 Rehab	443,754	340,202	103,552
Lift Station 7&8 Integration & Rehab	3,048,841	2,956,627	92,214
Municipal Storm Pollution Prevention & Training	13,127	10,179	2,948
Sewer Infiltration and Inflow Study	198,421	133,131	65,290
Sewer Lift Stations Rehabilitation	455,000	431,104	23,896
Shell Valley Emergency Access Road	132,168	129,597	2,571
SR99 International District Enhancements	100,000	92,000	8,000
Talbot Rd/Perrinville Creek Drainage Improv	167,872	110,837	57,035
Energy Efficiency Upgrade	528,457	349,580	178,877
Odor Control Improvements	1,738,179	1,716,464	21,715
	\$ 12,919,185	\$ 11,676,108	\$ 1,243,077

REQUIRED SUPPLEMENTARY INFORMATION
Firefighter's Pension Fund
Schedule of Contributions from Employer and Other Contributing Entities

Fiscal Year Ending 12/31	Medical and Long Term Care Payments	Fire Insurance Premium Taxes	Total Employer Contributions***	Annual Required Contribution	Percentage of ARC Contributed**
2010	(13,708)	44,905	31,197	40,903	76 %
2009	(8,589)	42,172	33,583	40,903	82
2008	(4,524)	44,226	39,702	28,629	139
2007	(25,575)	42,531	16,956	28,629	59
2006	(59,930)	38,540	(21,390)	23,901	(89)
2005	(62,106)	35,519	(26,587)	23,901	(111)
2004	(68,388)	33,452	(34,936)	14,060	(248)
2003	(47,145)	25,836	(21,309)	(4,655)	N/A

** In years with a negative ARC, this percentage is not applicable.

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

OPEB
Schedule of Employer Contributions

Fiscal Year Ending 12/31	Total Employer Contributions***	Annual Required Contribution	Percentage of ARC Contributed**
2010	\$441,864	\$593,330	74 %
2009	479,076	593,330	81
2008	444,701	561,707	79
2007	469,004	561,707	83

CITY OF EDMONDS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For Year Ended December 31, 2010

1	2	3	4	5			6
Federal Agency Name / Pass- through Agency Name	Federal Program Name	CFDA Number	Other I.D. Number	Expenditures			Foot- note Ref.
				From Pass- Through Awards	From Direct Awards	Total	
US Department of Justice	Bulletproof Vest Partnership Program	16.607	N/A		1,349	1,349	
	Edward Byrne Memorial Justice Assistance Grant (JAG) Program / Grants To Units Of Local Government	16.804	N/A		24,619	24,619	
U.S. Department of Housing and Urban Development	Economic Development Initiative-Special Project, Neighborhood Initiative and Miscellaneous Grants	14.251	B-08-SP- WA-0097		83,723	83,723	
U.S. Department of Energy	Energy Efficiency and Conservation Block Grant Program (EECBG)	81.128	RW 0000- 103		65,089	65,089	
National Park Service/Department of the Interior	Historic Preservation Fund Grants-In-Aid	15.904	53-07-PA- 3075		10,001	10,001	
Department of Transportation	State and Community Highway Safety	20.600	N/A	5,006		5,006	
	Occupant Protection Incentive Grants	20.602	N/A	1,392		1,392	
Washington State Traffic Safety Commission/U.S. DOT	Alcohol Impaired Driving Countermeasures Incentive Grants I	20.601	N/A	3,958		3,958	
		20.601	N/A	2,788		2,788	
		20.601	N/A	2,953		2,953	
Federal Highway Agency/U.S. DOT	Highway Planning and Construction	20.205	STPU0104 (019)	2,551		2,551	
		20.205	N/A	15,648		15,648	
		20.205	HSIP- 2501(003)	25,392		25,392	
		20.205	ARRA- 0365(007)	115,810		115,810	
Snohomish County Department of Housing and Urban Development	Community Development Block Grants/State's program and Non- Entitlement Grants in Hawaii	14.228	CDBG-F 2005	48,919		48,919	
Total Federal Awards Expended				\$224,417	\$184,780	\$409,197	

CITY OF EDMONDS, WASHINGTON
NOTES TO THE SCHEDULE OF EXPENDITURES OF FINANCIAL ASSISTANCE
For the Year Ended December 31, 2010

NOTE 1 – BASIS OF ACCOUNTING

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

NOTE 2 – PROGRAM COSTS

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

NOTE 3 – REVOLVING LOAN – PROGRAM INCOME

The City does not have any revolving loans.

NOTE 4 – FEDERAL LOANS

The City does not have any federal loans.

NOTE 5 – NONCASH AWARDS – EQUIPMENT

The City received equipment that was purchased with federal Homeland Security funds by the State of Washington. The amount reported on the schedule is the value of the property on the date it was received by the City and priced as prescribed by the State of Washington.