The City of Edmonds, Washington
Restated Financial Statements

(For the Year Ended December 31, 2012)

Seeing Whales by Richard Beyer

Dave Earling, Mayor

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Financial Section

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

REQUIRED SUPPLEMENTAL INFORMATION

BASIC FINANCIAL STATEMENTS

REQUIRED SUPPLEMENTAL INFORMATION

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Independent Auditor's Report on Financial Statements

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

Mayor and City Council
City of Edmonds
Edmonds, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Edmonds, Snohomish County, Washington, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed on page 11.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 12 through 23, pension trust fund and information on postemployment benefits other than pensions on pages 77 through 78 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. This schedule is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated February 26, 2014 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Troy X. Kelley

TROY KELLEY
STATE AUDITOR

February 26, 2014

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, 2012. The City's discussion and analysis is designed to:

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

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

Financial Highlights

- At December 31, 2012 the City's net position, the amount by which total assets exceeded total liabilities, totaled $146.1 million. Of this amount, $116.3 million is invested in capital assets, such as land, buildings, and infrastructure net of related debt. The remaining net position of $29.8 million is restricted for debt service, construction, and various other purposes.

- The City's total net position increased by $3.9 million or 2.7% in 2012. Governmental activities increased by $3 million and business-type activities increased by $873,092.

- Governmental funds reported a combined ending fund balance of $15 million; a $1.6 million increase over the prior year. Of this amount, $10.7 million is unassigned and available to fund ongoing activities. The unassigned fund balance of $10.7 million represents 33.63% of total 2012 general fund expenditures.

- Total capital assets increased by $1.4 million or 1.0% in 2012.

- Total debt decreased by a net of $3 million during the current fiscal year. Outstanding bonded debt, loans, and long term contracts at year-end totaled $34.5 million.

Using this Annual Financial Report

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

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

Overview of the Financial Statements

The City's basic financial statements are presented in three parts:

1) Government-wide financial statements

2) Fund financial statements
3) Notes to the financial statements

Other supplementary information, in addition to the basic financial statements, is also contained in this report. This section of the management's discussion and analysis is intended to introduce and explain the basic financial statements.

Government-wide Financial Statements

The government-wide financial statements are designed to be corporate-like in that all governmental and business-type activities are consolidated into columns which add to a total for the City. The focus of the *Statement of Net Position* is designed to be similar to bottom-line results for the City and its governmental and business-type activities. This statement combines and consolidates governmental funds' current financial resources (short-term spendable resources) with capital assets and long-term obligations. Over time, increases or decreases in net assets may be one indicator of improvement or deterioration in the City's overall financial health.

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

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

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

Fund Financial Statements

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

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

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

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

The City's main operating fund is the general fund. However, the City maintains many accounts and subfunds within the general fund, including the criminal investigations subfund, the emergency financial reserve subfund, the leoff-medical insurance reserve subfund, the reserve subfund, the risk management reserve subfund, the contingency reserve subfund, the historic preservation gift subfund, the multimodal transportation subfund, and the building maintenance subfund.

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.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning a schedule of funding progress for the Firemen's Pension Trust Fund and other post-employment benefits. Additional pension benefit information is found in note 10.

Government-wide Financial Analysis

The *Statement of Net Position* can serve as a useful indicator of the City's financial position. The City of Edmonds' net position (assets in excess of liabilities) at December 31, 2012 totaled $146.1 million. Following is a condensed version of the government-wide statement of net assets with a comparison to 2011:

City of Edmonds Net Position

	Governmental Activities		Business-type Activities		Total	
	As of 12/31/12	As of 12/31/11	As of 12/31/12	As of 12/31/11	As of 12/31/12	As of 12/31/11
Current and other assets	$ 28,888,817	$ 26,846,674	$ 19,478,622	$ 22,506,614	$ 48,367,439	$ 49,353,288
Capital assets, net of accumulated depreciation	72,037,041	72,715,560	67,838,217	65,774,450	139,875,258	138,490,010
Total assets	100,925,858	99,562,234	87,316,839	88,281,064	188,242,697	187,843,298
Long-term Liabilities	19,044,977	21,170,376	19,600,092	20,410,294	38,645,069	41,580,670
Other liabilities	2,183,815	1,701,116	1,284,828	2,311,943	3,468,643	4,013,059
Total liabilities	21,228,792	22,871,492	20,884,920	22,722,237	42,113,712	45,593,729
Net Position						
Invested in capital assets, net of related debt	61,259,051	61,004,928	55,063,391	45,783,325	116,322,442	106,788,253
Restricted	3,793,023	3,288,857	7,409,482	9,096,615	11,202,505	12,385,472
Unrestricted	14,644,992	12,396,957	3,959,046	10,678,887	18,604,038	23,075,844
Total Net Position	$ 79,697,066	$ 76,690,742	$ 66,431,919	$ 65,558,827	$ 146,128,985	$ 142,249,569

Approximately $6.4 million 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, transportation improvements, and other purposes in the amount of $4.8 million and unrestricted net assets of $18.6 million. The business-type unrestricted assets of $4 million may only be spent on utility activities. Other functions of the City may access the governmental unrestricted assets of $14.6 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.

The largest component of the City's net assets, $116.3 million, or 79.6%, is its investment in capital assets, less debt related to the acquisition or construction of those assets. These capital assets, such as streets, parks, trails, and vehicles and equipment related to police and public works, are used to provide services to the citizens. As a result, these assets are not for sale, and are therefore not available to fund current and future City obligations. The City elected the GASB 34 reporting option to include all general infrastructure of the City acquired or substantially renovated since 1980.

Unrestricted net assets of the City's business-type activities, totaling $4 million, represent the portion of unrestricted net assets that may only be spent on activities related to one of the City's utilities (water, sewer, storm water and wastewater treatment). Examples of utility activities include maintenance of water/sewer mains, pump and lift stations, storm drain flushing, water meter reading, and the wastewater treatment plant.

Restricted governmental fund net assets are $3.8 million and are restricted for purposes such as debt service, public safety and other purposes.

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

Changes in Net Assets

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

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

City of Edmonds Changes in Net Position

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Revenues:						
Program revenues:						
Charges for services	$ 8,713,374	$ 8,378,697	$ 15,970,380	$ 15,620,997	$ 24,683,754	$ 23,999,694
Operating grants and contributions	1,324,353	145,406	53,743	179,479	1,378,096	324,885
Capital grants and contributions	1,942,259	1,771,199	1,052,305	498,486	2,994,564	2,269,685
General revenues:						
Property tax	13,382,296	13,539,536	-	-	13,382,296	13,539,536
Retail sales and use tax	5,637,393	5,286,262	-	-	5,637,393	5,286,262
Interfund utility tax	1,527,310	1,517,150	-	-	1,527,310	1,517,150
Utility tax	4,813,324	4,715,339	-	-	4,813,324	4,715,339
Excise tax	1,819,610	1,368,160	-	-	1,819,610	1,368,160
Other taxes	-	1,020,419	-	-	-	1,020,419
Real estate excise taxes	-	-	-	-	-	-
Hotel/motel taxes	-	-	-	-	-	-
Fuel taxes	-	-	-	-	-	-
Payments from component unit	404,161	396,493	-	-	404,161	396,493
Investment earnings	22,565	16,070	22,786	15,287	45,351	31,357
Miscellaneous revenue	64,315	84,770	-	311	64,315	85,081
Gain on sale of capital assets	(148,542)	36,762	-	-	(148,542)	36,762
Total revenues	39,502,418	38,276,263	17,099,214	16,314,560	56,601,632	54,590,823
Expenses:						
General government	7,860,158	8,092,028	-	-	7,860,158	8,092,028
Public safety	17,490,480	18,037,057	-	-	17,490,480	18,037,057
Transportation	3,922,273	3,412,126	-	-	3,922,273	3,412,126
Physical environment	1,546,080	1,405,398	-	-	1,546,080	1,405,398
Culture and recreation	4,237,656	4,298,852	-	-	4,237,656	4,298,852
Economic environment	1,011,062	1,063,894	-	-	1,011,062	1,063,894
Health and human services	12,168	9,731	-	-	12,168	9,731
Interest on long-term debt	760,142	781,881	-	-	760,142	781,881
Prior Period Adjustment	-	-	-	-	-	-
Combined utility fund	-	-	15,258,298	14,140,249	15,258,298	14,140,249
Total expenses	36,840,019	37,100,967	15,258,298	14,140,249	52,098,317	51,241,216
Increase in net position before transfers	2,662,399	1,175,296	1,840,916	2,174,311	4,503,315	3,349,607
Transfers	565,628	482,316	(565,628)	(482,316)	-	-
Change in net position	3,228,027	1,657,612	1,275,288	1,691,995	4,503,315	3,349,607
Net position-beginning of period	76,690,742	75,033,130	65,558,827	63,866,832	142,249,569	138,899,962
Prior Period Adjustment	(221,703)	-	(402,196)	-	(623,899)	-
Net position-end of period	$ 79,697,066	$ 76,690,742	$ 66,431,919	$ 65,558,827	$ 146,128,985	$ 142,249,569

Governmental activities contributed $3 million to the total increase in City net assets. Revenues to fund capital assets are recorded as program or general revenues in the statement of activities. However, asset purchases are not recorded as expenses in the year purchased and construction costs are not recorded as expenses in the year incurred. Instead, the costs are recorded as long-term assets and are depreciated over their useful life.

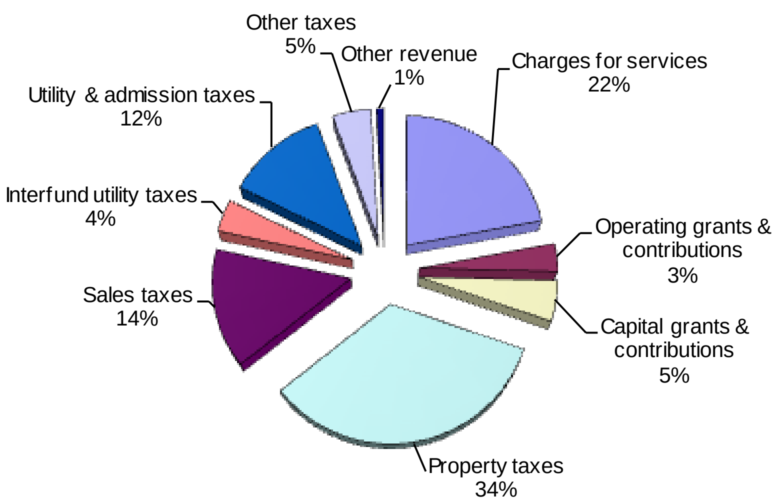
General fund tax revenue changes during 2012:

- Property tax revenue increased $27,754, or .21%.
- Sales tax collections increased by $347,134, or 6.25%.
- Utility taxes rose by $108,145 or 1.71%.
- Real Estate Excise Tax (REET) revenue increased by $450,604, or 29.29%.

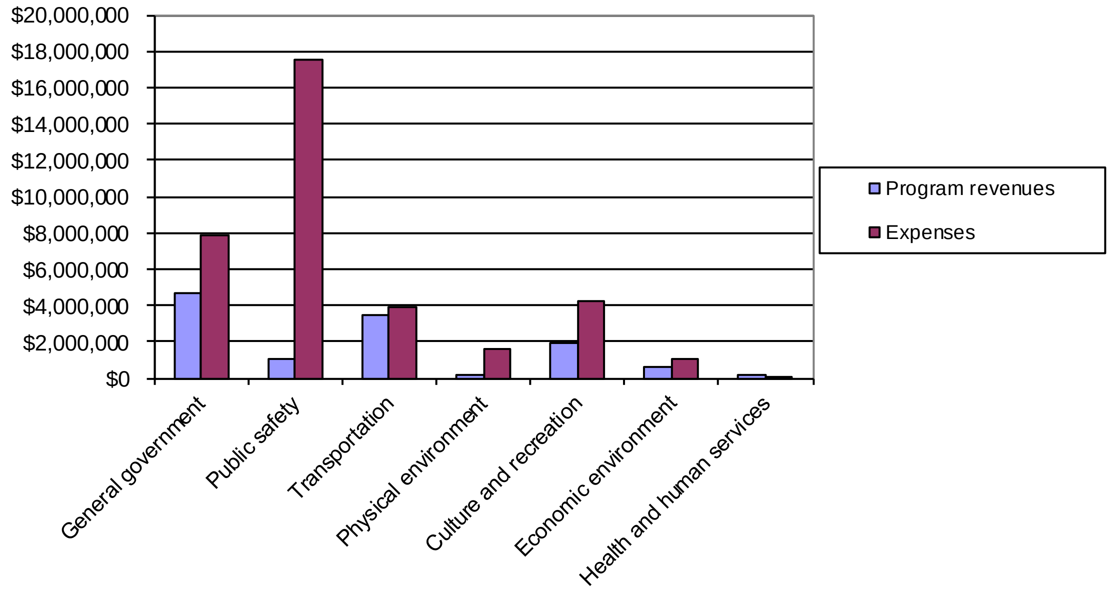
Governmental activity expenses decreased by $260,948, or .71%. The decrease reflected the desire of City administration to adapt spending patterns to actual revenue collections throughout the year.

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

Revenues by Source - Governmental Activities



Program Revenues and Expenses - Governmental Activities



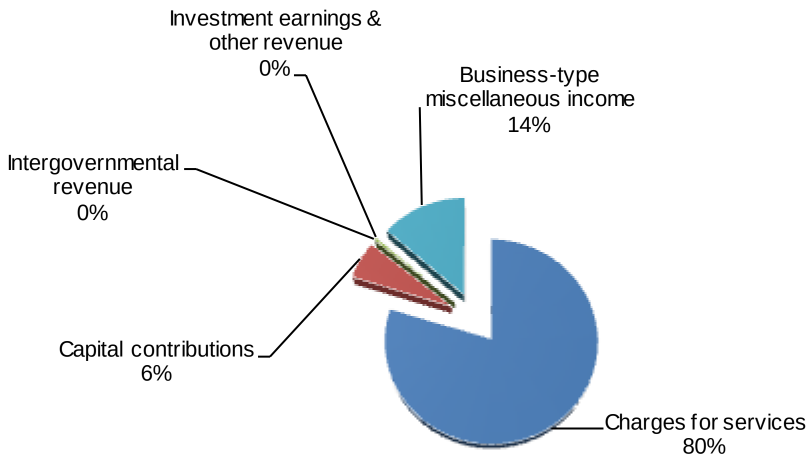
Business-type activities net position increased by $873,092. Key components of this increase include:

- $1,027,212 relates to utility capital contributions.
- Net Income (Change in Net Position) went down by $416,707, or 24.6% from 2011. In 2012, this change was $1,275,288, and with the prior period corrections that decreased fund balance by $402,196, this totals the increase of $873,092 for business-type activities.
- Business-type activities expenses increased by $1,118,049, or 7.91%, from 2011.
- Net transfers-out totaled $565,628. The transfers generally related to construction costs accounted for in other funds where the utility fund also incurred costs for improvements, such as a water main replacement when a street overlay occurs.

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

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

Revenues by Source - Business-Type Activity



Financial Analysis of Governmental Funds

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

As of December 31, 2012, the City's governmental funds had combined fund balances of $15,037,284 an increase of $1,621,262 or 10.78%. This increase is related to:

- General fund ($1,070,400)
- Contingency reserve subfund $5,278,152
- Public safety emergency reserve subfund ($1,338,178)
- Emergency financial reserve subfund ($1,927,600)
- REET 2 fund $595,120
- Parks construction fund $310,029
- Street fund ($269,068)
- Other governmental fund $43,207

Of the governmental funds' total fund balances, $10,686,840 is unassigned. Restricted fund balances include $3,022,707 earmarked for culture and recreation purposes, $507,242 for transportation purposes, $26,229 for debt service, $118,537 for public safety, $103,792 for economic environment, and $14,516 for other purposes. Committed fund balances include $432,251 for culture and recreation purposes, and $53,600 for utilities and environment.

The general fund is the primary operating fund of the City. All receipts and payments of ordinary City operations are processed through it unless they are accounted for in another fund. At the end of 2012, the general fund had a fund balance of $10,686,910, of which substantially all is unreserved. The fund balance for the general fund is comprised of the following subfunds:

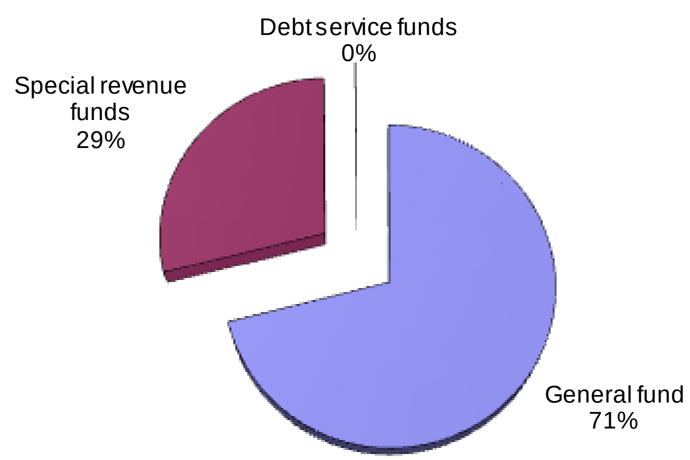
- LEOFF medical insurance reserve subfund $388,509
- Risk Management reserve fund $114,000
- Contingency reserve fund $5,278,152
- Historic Preservation Gift fund $1,063
- Multimodal transportation subfund $55,859
- Building maintenance subfund $214,026
- General fund $4,635,231

Other governmental funds that had significant fund balances include:

- Street construction fund $384,261
- Parks construction fund $396,823
- Municipal arts acquisition fund $432,251
- Cemetery maintenance trust fund $818,644
- Reet 2 fund $1,031,760

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

Governmental Funds - Fund Balances



The $1,124,272 increase in the general fund balance results from revenue of $33,219,646, expenses of $31,799,368, transfers into the fund of $276,016, transfers out of $370,320. In comparison with 2011, revenue increased by $266,466, expenditures decreased by $382,802, transfers out decrease by $193,692, transfers in decreased by $182,236 and income from the sale of capital assets decreased by $16,257.

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 2012 budget was amended seven times. The final general fund expenditure budget was $6.3 million higher than the original adopted budget. The majority of this difference was due to establishing the Contingency Reserve fund. Of the $5.3 million transferred to this fund, $2 million was from the general fund, $1.9 was from the emergency/financial reserve fund, and $1.3 million was from the reserve fund.

A comparison of the actual performance of the general fund on a budgetary basis to the final budget indicates that the total revenues were more than budgeted total revenues by $210,274. This was due to an increase in retail sales and use tax, a decrease in charges for services, and an increase in licenses and permits among others.

Expenditures were approximately $2 million below budget, the largest savings were due to salary and benefits of $909,573, professional services of $323,320, repairs and maintenance of $103,661, intergovernmental services of $267,201, and the remaining $404,299 was due to various other expense line items.

Financial Analysis of Proprietary Funds

The City's proprietary funds provide the same type of information as found in the government-wide financial statements, but in greater detail. Factors affecting the finances of the City's proprietary funds have already been addressed in the discussion of the City's business-type activities.

Capital Asset and Debt Administration

Capital Assets

The City's investment in capital assets for both its governmental and business-type activities as of December 31, 2012 totaled $139.9 million (net of accumulated depreciation), an increase of $1.4 million from 2011. This investment in capital assets includes land, buildings, improvements, machinery and equipment, construction in progress, utility transmission/distribution systems, roads, and other infrastructure.

Major capital asset changes during the year include:

- Land, building and right-of-way costs were incurred during the year, resulting in an increase in governmental infrastructure of $2.1 million. The majority is due to projects related to the Street Overlay Program.

- $6.1 million was spent by proprietary funds on capital projects during the year. The largest additions were the result of waterline replacement, and sewer lift station improvements.

A summary of the City's net assets follows:

Summary of Capital Assets (net of depreciation)

	Governmental Activities		Business-type Activities		Total	
	As of 12/31/12	As of 12/31/11	As of 12/31/12	As of 12/31/11	As of 12/31/12	As of 12/31/11
Land	$ 14,530,663	$ 14,530,663	$ 1,257,106	$ 1,257,106	$ 15,787,769	$ 15,787,769
Building	11,942,436	12,784,930	21,581,600	22,285,872	33,524,036	35,070,802
Improvements other than buildings	6,794,504	7,191,208	38,313,154	34,059,505	45,107,658	41,250,713
Infrastructure	26,752,773	27,095,351	-	-	26,752,773	27,095,351
Machinery and equipment	2,381,055	2,422,704	230,209	266,436	2,611,264	2,689,140
Intangible assets	-	-	294,876	346,776	294,876	346,776
Construction in progress	9,635,611	8,690,704	6,161,274	7,558,755	15,796,885	16,249,459
Total	$ 72,037,042	$ 72,715,560	$ 67,838,219	$ 65,774,450	$ 139,875,260	$ 138,490,010

More detailed information on capital assets is provided in note 8.

Long-term Debt

At the end of the current fiscal year, the City had total bonded debt outstanding of $30,175,000. Of this amount, $13,604,427 is general obligation bonds for governmental activities, $3,320,573 is general obligation bonds for business-type activities, for a total of $16,925,000 in general obligation bonds, and $13,250,000 is revenue bonds for the City operated utilities. The City currently maintains a rating of Aa3 with Moody's for its revenue bonds, Aa2 for voter approved general obligation bonds, and Aa3 for councilmanic general obligation bonds.

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

Summary of Long-Term Debt

	Governmental Activities		Business-type Activities		Total	
	As of 12/31/12	As of 12/31/11	As of 12/31/12	As of 12/31/11	As of 12/31/12	As of 12/31/11
General obligation debt	$ 13,604,427	$ 15,520,201	$ 3,320,573	$ 3,554,800	$ 16,925,000	$ 19,075,001
Revenue bonds	-	-	13,250,000	13,720,000	13,250,000	13,720,000
Capital contracts	1,063,924	1,229,863	-	-	1,063,924	1,229,863
Public Works Trust Fund loans	895,893	968,095	2,407,905	2,563,901	3,303,798	3,531,996
Total	$ 15,564,244	$ 17,718,159	$ 18,978,478	$ 19,838,701	$ 34,542,722	$ 37,556,860

Economic Factors

The economic conditions have continued to increase at a slow rate, sales tax collections increased 6.25%, and REET revenue has increased 29.29%. Property tax and Utility tax revenue collections are still holding steady. City staff has continued to hold the line on spending and therefore the City's 2013 budget reflects no new programs and is passed in large part on the 2012 estimated actual results with minimal increases to 2012 revenue.

Economic Overview

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

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

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

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

Healthcare. Swedish Edmonds Hospital, which originally opened in 1964 is a full service facility licensed for 217 and staffed by 450+ physicians and specialists. Prior to joining Swedish, the Edmonds hospital (formerly known as Stevens Hospital) was governed by the Public Hospital District No. 2 of Snohomish County. The District's Board of Commissioners no longer oversees the day-to-day operations at Swedish/Edmonds, but is still involved in some of the major decisions. It also manages the Verdant Health Commission, formerly South Snohomish County Commission for Health, to promote good health in the surrounding communities.

Transportation. The Edmonds/Kingston ferry connects south Snohomish County and north King County with the Kitsap Peninsula and, via the Hood Canal Bridge, the Olympic Peninsula. A Burlington Northern Railroad line runs adjacent to the Edmonds' shoreline and is used for Sound Transit Commuter and Amtrak passenger rail service and moving freight. Community Transit provides local and commuter bus service.

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

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

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

Requests for Information

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

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The City presents two government-wide financial statements:

The Statement of Net Position *provides information all on city assets and liabilities, with the difference between the two reported as net position.*

The Statement of Activities *is focused on both the gross and net cost of various functions, including both governmental and business-type activities, which are supported by the City's general tax and other revenues.*

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CITY OF EDMONDS, WASHINGTON

STATEMENT OF NET POSITION

DECEMBER 31, 2012

	PRIMARY GOVERNMENT			COMPONENT UNIT -
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	EDMONDS PUBLIC FACILITIES DISTRICT
ASSETS:				
CASH AND CASH EQUIVALENTS (Note 3)	$ 14,072,292	$ 15,226,248	$ 29,298,540	$ 89,820
CASH WITH OUTSIDE AGENCIES	39,040	-	39,040	-
INVESTMENTS (Note 3)	3,493,760	-	3,493,760	-
RECEIVABLES:				
TAXES	401,663	-	401,663	-
CUSTOMER ACCOUNTS	702,270	2,259,942	2,962,212	18,358
COURT RECEIVABLE	663,558	-	663,558	
OTHER RECEIVABLES	-	-	-	70,752
SPECIAL ASSESSMENTS	32,866	-	32,866	-
INTEREST ON INVESTMENT	1,203	-	1,203	
DUE FROM OTHER GOVERNMENTAL UNITS	3,263,117	589,298	3,852,415	31,800
DUE FROM COMPONENT UNIT	225,000	-	225,000	-
MATERIALS AND SUPPLIES INVENTORY	81,591	99,568	181,159	2,261
DEFERRED CHARGES	28,777	319,403	348,180	130,180
RESTRICTED ASSETS:				
CASH AND CASH EQUIVALENTS (Note 3)	-	984,163	984,163	-
SPECIAL ASSESSMENTS	93,712	-	93,712	-
DUE FROM COMPONENT UNIT-LONG-TERM	5,295,631	-		
INVESTMENT IN JOINT VENTURE	494,337	-	494,337	-
DEPRECIABLE CAPITAL ASSETS (NET OF ACCUMULATED DEPRECIATION): (Note 8)	47,870,767	60,419,837	108,290,604	10,592,175
NON-DEPRECIABLE CAPITAL ASSETS	24,166,274	7,418,380	31,584,654	3,444,885
TOTAL ASSETS	100,925,858	87,316,839	188,242,697	14,380,231
LIABILITIES:				
ACCOUNTS PAYABLE	1,048,575	561,964	1,610,539	84,060
WAGES AND BENEFITS PAYABLE	1,161,356	202,476	1,363,832	61,058
INTERNAL BALANCES	(157,365)	157,365	-	-
DUE TO OTHER GOVERNMENTAL UNITS	-	136,762	136,762	-
OTHER LIABILITIES PAYABLE	98,852	185,744	284,596	-
PAYABLE FROM RESTRICTED ASSETS:				
ACCRUED INTEREST	32,397	37,218	69,615	21,352
DEPOSITS	-	3,299	3,299	75,506
UNEARNED REVENUE	-	-	-	204,234
DEFERRED CREDITS	178,746	268,198	446,944	7,439
BONDS AND OTHER DEBT PAYABLE:				
NET PENSION OBLIGATION	208,751	-	208,751	-
NET OTHER POST EMPLOYMENT OBLIGATION	445,956	-	445,956	-
DUE WITHIN ONE YEAR (Note 12)	3,943,601	1,291,441	5,235,042	380,000
DUE IN MORE THAN ONE YEAR (Note 12)	14,267,923	18,040,453	32,308,376	8,745,829
TOTAL LIABILITIES	21,228,792	20,884,920	42,113,712	9,579,478
NET POSITION:				
INVESTED IN CAPITAL ASSETS, NET OF RELATED DEBT	61,259,051	55,063,391	116,322,442	5,697,061
RESTRICTED FOR:				
DEBT SERVICE	26,229	984,163	1,010,392	475,533
PUBLIC SAFETY	118,537	-	118,537	-
TRANSPORTATION	507,242	-	507,242	-
CULTURE AND RECREATION	3,022,707	-	3,022,707	-
ECONOMIC ENVIRONMENT	103,792	-	103,792	-
CONSTRUCTION	-	6,422,020	6,422,020	-
OTHER PURPOSES	14,516	3,299	17,815	-
UNRESTRICTED NET POSITION	14,644,992	3,959,046	18,604,038	(1,371,841)
TOTAL NET POSITION	$ 79,697,066	$ 66,431,919	$ 146,128,985	$ 4,800,753

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

CITY OF EDMONDS, WASHINGTON

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2012

		PROGRAM REVENUES		
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS
FUNCTIONS / PROGRAMS:				
PRIMARY GOVERNMENT:				
GOVERNMENTAL ACTIVITIES:				
GENERAL GOVERNMENT	$ 7,860,158	$ 4,624,432	$ 7,000	$ -
PUBLIC SAFETY	17,490,480	1,066,201	10,712	-
TRANSPORTATION	3,922,273	765,565	1,229,725	1,436,914
PHYSICAL ENVIRONMENT	1,546,080	141,400	-	-
CULTURE AND RECREATION	4,237,656	1,342,837	69,866	505,345
ECONOMIC ENVIRONMENT	1,011,062	616,346	6,859	-
HEALTH AND HUMAN SERVICES	12,168	156,593	-	-
INTEREST ON LONG-TERM DEBT	760,142	-	191	-
TOTAL GOVERNMENTAL ACTIVITIES	36,840,019	8,713,374	1,324,353	1,942,259
BUSINESS-TYPE ACTIVITIES:				
COMBINED UTILITY OPERATION	15,258,298	15,970,380	53,743	1,052,305
TOTAL BUSINESS-TYPE ACTIVITIES	15,258,298	15,970,380	53,743	1,052,305
TOTAL PRIMARY GOVERNMENT	$ 52,098,317	$ 24,683,754	$ 1,378,096	$ 2,994,564
COMPONENT UNIT:				
EDMONDS PUBLIC FACILITIES DISTRICT	$ 2,463,941	$ 846,029	$ 684,755	$ -
TOTAL COMPONENT UNIT	$ 2,463,941	$ 846,029	$ 684,755	$ -

GENERAL REVENUES:
TAXES:
PROPERTY
RETAIL SALES AND USE
INTERFUND UTILITY
UTILITY
EXCISE
PAYMENTS FROM COMPONENT UNIT
INVESTMENT EARNINGS
MISCELLANEOUS
GAIN (LOSS) ON SALE OF CAPITAL ASSETS
TRANSFERS (Note 6)
TOTAL GENERAL REVENUES

CHANGE IN NET POSITION

NET POSITION - BEGINNING
PRIOR PERIOD ADJUSTMENT (Note 18)
NET POSITION - ENDING

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

Page 2 of 2

PRIMARY GOVERNMENT NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS			COMPONENT UNIT
GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITY	TOTAL	EDMONDS PUBLIC FACILITIES DISTRICT
$ (3,228,726)	$ -	$ (3,228,726)	
(16,413,567)	-	(16,413,567)	
(490,069)	-	(490,069)	
(1,404,680)	-	(1,404,680)	
(2,319,608)	-	(2,319,608)	
(387,857)	-	(387,857)	
144,425	-	144,425	
(759,951)	-	(759,951)	
(24,860,033)	-	(24,860,033)	
-	1,818,130	1,818,130	
-	1,818,130	1,818,130	
(24,860,033)	1,818,130	(23,041,903)	
			$ (933,157)
			(933,157)
13,382,296	-	13,382,296	-
5,637,393	-	5,637,393	418,866
1,527,310	-	1,527,310	-
4,813,324	-	4,813,324	-
1,819,610	-	1,819,610	-
404,161	-	404,161	-
22,565	22,786	45,351	1,454
64,315	-	64,315	-
(148,542)	-	(148,542)	-
565,628	(565,628)	-	-
28,088,060	(542,842)	27,545,218	420,320
3,228,027	1,275,288	4,503,315	(512,837)
76,690,742	65,558,827	142,249,569	5,268,443
(221,703)	(402,196)	(623,899)	45,147
79,697,066	$ 66,431,919	$ 146,128,985	$ 4,800,753

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MAJOR GOVERNMENTAL FUNDS

General Fund

The general fund is used to account for and report all financial resources not accounted for and reported in another fund. As is the case with most municipalities, the general fund is the largest and most important accounting entity of the City. As noted in the statements that follow, the general fund receives the bulk of its revenues from local taxes, followed by State shared revenues, service charges, and other income.

The general fund is accounted for on a modified accrual basis. Annual budgets are adopted with appropriations lapsing at the end of the year.

CITY OF EDMONDS, WASHINGTON
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2012

	GENERAL FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS:			
CURRENT ASSETS:			
CASH AND CASH EQUIVALENTS	$ 7,035,103	$ 2,518,814	$ 9,553,917
INVESTMENTS	2,993,760	500,000	3,493,760
DEPOSITS WITH TRUSTEES	39,040	-	39,040
RECEIVABLES:			
TAXES	401,663	-	401,663
CUSTOMER ACCOUNTS	690,311	10,767	701,078
SPECIAL ASSESSMENTS	-	32,866	32,866
ACCRUED INTEREST RECEIVABLE	334	869	1,203
DUE FROM COMPONENT UNIT	5,520,631	-	5,520,631
INTERFUND RECEIVABLE (Note 6)	157,365	44,277	201,642
DUE FROM OTHER GOVERNMENTAL UNITS	1,398,308	1,863,252	3,261,560
SUPPLIES INVENTORY	70	-	70
LONG-TERM ASSETS:			
DEFERRED SPECIAL ASSESSMENTS	-	93,712	93,712
TOTAL ASSETS	$ 18,236,585	$ 5,064,557	$ 23,301,142
LIABILITIES AND FUND BALANCES:			
CURRENT LIABILITIES:			
ACCOUNTS PAYABLE	$ 482,057	$ 506,686	$ 988,743
WAGES AND BENFITS PAYABLE	1,015,668	33,459	1,049,127
INTERFUND PAYABLE (Note 6)	-	44,277	44,277
OTHER LIABILITIES PAYABLE	97,828	1,024	98,852
LONG-TERM LIABILITIES:			
DEFERRED REVENUE	5,954,121	128,737	6,082,858
TOTAL LIABILITIES	7,549,674	714,183	8,263,857
FUND BALANCES:			
NON-SPENDABLE:			
INVENTORY	70	-	70
RESTRICTED FOR:			
DEBT SERVICE	-	26,229	26,229
PUBLIC SAFETY	-	118,537	118,537
TRANSPORTATION	-	507,242	507,242
CULTURE AND RECREATION	-	3,022,707	3,022,707
ECONOMIC ENVIRONMENT	-	103,792	103,792
OTHER PURPOSES	-	14,516	14,516
COMMITTED TO:			
UTILITIES AND ENVIRONMENT	-	53,600	53,600
CULTURE AND RECREATION	-	432,251	432,251
OTHER PURPOSES	-	71,500	71,500
UNASSIGNED	10,686,840	-	10,686,840
TOTAL FUND BALANCES	10,686,910	4,350,374	15,037,284
TOTAL LIABILITIES AND FUND BALANCES	$ 18,236,584	$ 5,064,557	$ 23,301,141

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

CITY OF EDMONDS, WASHINGTON

RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET POSITION

GOVERNMENTAL FUNDS

DECEMBER 31, 2012

Total governmental fund balances as reported on this statement		$ 15,037,284
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and therefore not reported in the funds. These assets consist of:		
Land	$ 14,530,663	
Construction in progress	9,635,611	
Subtotal: Non-depreciable capital assets	24,166,274	
Investment in joint venture	494,336	
Buildings	25,479,908	
Improvements other than buildings	13,531,609	
Infrastructure	57,784,955	
Machinery and equipment - general government	7,385,975	
Less: Accumulated depreciation	(56,311,679)	
Subtotal: Depreciable capital assets	47,870,768	
		72,531,378
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Court receivable	663,558	
Deferred charges	28,777	
Interest receivable on investments	0	
Unearned revenue beyond the city's 30-day measurable and available period	0	
Deferred charges for bond issue costs	(178,746)	
		513,589
Internal service funds are used by management to charge the cost of equipment maintenance to individual funds. The assets and liabilities of these internal service funds are included in governmental activities in the statement of net assets. Capital assets of $2,026,934 are included in the capital asset adjustment above. Compensated absence liability of $22,398 is included in the adjustment below .		4,509,350
Some liabilities are not due and payable in the current period and therefore are not reported in the funds.		
General obligation bonds	(13,604,427)	
Compensated absences ($2,647,280 total liability, less $22,398 attributable to internal service funds)	(2,624,882)	
Accrued Wages Payable (Voluntary Separation Incentive Program)	(101,163)	
Capital contracts	(1,063,924)	
Public w orks trust fund loans	(895,893)	
Subtotal: Long-term debt payable	(18,290,289)	
Accrued interest	(32,397)	
Net pension obligation	(208,751)	
Net other post employment benefit obligation	(445,956)	
Unearned revenues reported as deferred revenues in the Balance Sheet - Governmental Funds are not reported in the government-w ide Statement of Net Position (Note 1)	6,082,858	
		(12,894,535)
Net position of government activities as reported on the statement of net position		$ 79,697,066

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

CITY OF EDMONDS, WASHINGTON

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

GOVERNMENTAL FUNDS

FOR THE YEAR ENDED DECEMBER 31, 2012

	GENERAL FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES:			
TAXES:			
PROPERTY	$ 13,464,310	$ -	$ 13,464,310
RETAIL SALES & USE	5,557,905	79,488	5,637,393
INTERFUND UTILITY	1,527,310	-	1,527,310
UTILITY	4,813,325	-	4,813,325
EXCISE	281,008	1,538,602	1,819,610
LICENSES AND PERMITS	1,686,196	24,888	1,711,084
INTERGOVERNMENTAL	975,506	3,474,724	4,450,230
CHARGES FOR SERVICES	3,929,688	884,394	4,814,082
FINES AND FORFEITURES	598,398	-	598,398
INVESTMENT EARNINGS	10,566	11,996	22,562
MISCELLANEOUS	375,434	235,592	611,026
TOTAL REVENUES	33,219,646	6,249,684	39,469,330
EXPENDITURES:			
CURRENT:			
GENERAL GOVERNMENT SERVICES	7,182,874	1,336	7,184,210
PUBLIC SAFETY	17,267,023	56,602	17,323,625
UTILITIES AND ENVIRONMENT	1,355,506	156,009	1,511,515
TRANSPORTATION	-	1,568,930	1,568,930
ECONOMIC ENVIRONMENT	999,891	4,259	1,004,150
MENTAL AND PHYSICAL HEALTH	12,168	-	12,168
CULTURE AND RECREATION	3,259,549	228,032	3,487,581
DEBT SERVICE:			
PRINCIPAL	1,147,442	818,318	1,965,760
INTEREST AND OTHER COSTS	291,818	466,406	758,224
CAPITAL OUTLAY	13,097	3,025,563	3,038,660
INTERGOVERNMENTAL AND OTHER PAYMENTS	250,000	-	250,000
TOTAL EXPENDITURES	31,779,368	6,325,455	38,104,823
EXCESS (DEFICIENCY) OF REVENUES			
OVER (UNDER) EXPENDITURES	1,440,278	(75,771)	1,364,507
OTHER FINANCING SOURCES (USES):			
PROCEEDS OF GENERAL LONG-TERM DEBT	-	9,004,043	9,004,043
PAYMENTS TO ESCROW FOR BOND REFUNDING	-	(9,227,996)	(9,227,996)
PREMIUM ON BONDS SOLD	-	343,536	343,536
BOND ISSUANCE DISCOUNT	-	(49,522)	(49,522)
SALES OF CAPITAL ASSETS	-	2,490	2,490
TRANSFERS IN (Note 6)	276,016	1,900,694	2,176,710
TRANSFERS OUT (Note 6)	(370,320)	(1,400,486)	(1,770,806)
TOTAL OTHER FINANCING SOURCES AND USES	(94,304)	572,759	478,455
NET CHANGE IN FUND BALANCES	1,345,974	496,988	1,842,962
FUND BALANCES - BEGINNING	9,562,638	3,853,386	13,416,024
PRIOR PERIOD ADJUSTMENT	(221,703)	-	(221,703)
FUND BALANCES - ENDING	$ 10,686,910	$ 4,350,374	$ 15,037,284

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

CITY OF EDMONDS, WASHINGTON

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENT FUNDS TO THE STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2012

Net change in fund balances per the Statement of Revenues, Expenditures and Changes in Fund Balance		$ 1,842,962
Amount reported as change in net assets in the Statement of Activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay ($3,030,410) is exceeded by depreciation and amortization ($3,738,102) in the current period.		
Capital outlays	$ 3,027,526	
Internal service fund - capital outlays	490,116	
Current year depreciation (includes $337,943 for internal service fund)	(4,029,999)	
Adjustment in investment in joint venture	(16,737)	
		(529,094)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds:		
Deferred taxes	(82,015)	
Other deferred revenue	266,515	
Record of court receivable	(6,208)	
		178,292
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.		
Amortization of deferred charges	5,033	
Long-term debt repayments	1,965,761	
		1,970,794
Internal service funds are used by management to charge the costs of equipment rental to individual funds. The net revenue (expense) of this internal service fund is reported with governmental activities. Capital activity of $152,173 is included in the capital asset adjustment above.		(278,782)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
Accrued interest expense	26,680	
Net pension obligation	11,314	
Net other post-employment benefit obligation	(8,484)	
Voluntary Separation Incentive Program	(101,163)	
Accrued compensating absence expense ($147,402 total expenditure less $31,894 attributable to internal service funds)	115,508	
		43,855
Change in net assets on the Statement of Activities		$ 3,228,027

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

CITY OF EDMONDS, WASHINGTON

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL

GENERAL FUND

FOR THE YEAR ENDED DECEMBER 31, 2012

	ORIGINAL BUDGET (GAAP BASIS)	FINAL BUDGET (GAAP BASIS)	ACTUAL RESULTS	VARIANCE WITH FINAL BUDGET
REVENUES:				
TAXES:				
PROPERTY	$ 13,434,570	$ 13,434,570	$ 13,464,310	$ 29,740
RETAIL SALES & USE	5,252,325	5,252,325	5,557,905	305,580
INTERFUND UTILITY	1,548,996	1,548,996	1,527,310	(21,686)
UTILITY	4,801,786	4,801,786	4,813,325	11,539
EXCISE	281,419	281,419	281,008	(411)
LICENSES AND PERMITS	1,586,261	1,586,261	1,686,196	99,935
INTERGOVERNMENTAL	1,013,653	1,013,653	975,506	(38,147)
CHARGES FOR SERVICES	4,065,102	4,065,102	3,929,688	(135,414)
FINES AND FORFEITURES	619,272	619,272	598,398	(20,874)
INVESTMENT EARNINGS	17,960	17,960	10,566	(7,394)
MISCELLANEOUS	363,168	388,028	375,434	(12,594)
TOTAL REVENUES	32,984,512	33,009,372	33,219,646	210,274
EXPENDITURES:				
CURRENT:				
GENERAL GOVERNMENT	7,397,277	8,036,734	7,182,874	853,860
PUBLIC SAFETY	18,117,581	18,117,581	17,267,023	850,558
UTILITIES AND ENVIRONMENT	1,342,858	1,368,658	1,355,506	13,152
ECONOMIC ENVIRONMENT	1,038,671	1,050,581	999,891	50,690
MENTAL AND PHYSICAL HEALTH	10,300	10,300	12,168	(1,868)
CULTURE AND RECREATION	3,471,365	3,489,708	3,259,549	230,159
DEBT SERVICE	1,449,280	1,446,646	1,439,260	7,386
CAPITAL OUTLAY	17,144	17,144	13,097	4,047
INTERGOVERNMENTAL AND OTHER PAYMENTS	250,000	250,000	250,000	-
TOTAL EXPENDITURES	33,094,476	33,787,352	31,779,368	2,007,984
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(109,964)	(777,980)	1,440,278	2,218,258
OTHER FINANCING SOURCES (USES):				
TRANSFERS IN (Note 6)	681,686	6,214,616	276,016	(5,938,600)
TRANSFERS OUT (Note 6)	(719,623)	(6,333,061)	(370,320)	5,962,741
TOTAL OTHER FINANCING SOURCES AND USES	(37,937)	(118,445)	(94,304)	24,141
NET CHANGE IN FUND BALANCES	(147,901)	(896,425)	1,345,974	2,242,399
FUND BALANCES - BEGINNING	9,432,760	9,562,638	9,562,638	-
PRIOR PERIOD ADJUSTMENT	-	-	(221,703)	(221,703)
FUND BALANCES - ENDING	$ 9,284,859	$ 8,666,213	$ 10,686,909	$ 2,020,696

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

MAJOR PROPRIETARY FUNDS

ENTERPRISE FUNDS

The City's enterprise fund is used to account for operations that are financed and operated in a manner similar to private business operations. The goods and services this fund provides to the general public are primarily financed by service charges. Enterprise funds are self-supporting and use the accrual method of accounting. Edmonds has one major enterprise fund.

The Combined Utility Fund

This fund accounts for all maintenance, construction, and debt service requirements associated with the City's water, sewer and stormwater systems.

CITY OF EDMONDS, WASHINGTON
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2012

	411 / 412 / 414 COMBINED UTILITY FUNDS	GOVERNMENTAL ACTIVITIES INTERNAL SERVICE FUNDS
ASSETS:		
CURRENT ASSETS:		
CASH AND CASH EQUIVALENTS	$ 15,226,248	$ 4,518,375
CUSTOMER ACCOUNTS	2,259,942	1,192
DUE FROM OTHER GOVERNMENTAL UNITS	589,298	1,558
INVENTORY	99,568	81,521
TOTAL CURRENT ASSETS	18,175,056	4,602,646
LONG-TERM ASSETS:		
RESTRICTED CASH, BOND RESERVES	984,163	-
DEFERRED CHARGES	319,403	-
CAPITAL ASSETS:		
DEPRECIABLE CAPITAL ASSETS (NET OF ACCUMULATED DEPRECIATION)	60,419,837	2,026,934
CONSTRUCTION IN PROGRESS	6,161,274	-
LAND	1,257,106	-
TOTAL CAPITAL ASSETS (NET OF A/D)	67,838,217	2,026,934
TOTAL LONG-TERM ASSETS	69,141,783	2,026,934
TOTAL ASSETS	87,316,839	6,629,580
LIABILITIES:		
CURRENT LIABILITIES:		
ACCOUNTS PAYABLE	561,964	59,832
WAGES AND BENEFITS PAYABLE	202,476	33,464
COMPENSATED ABSENCES	403,249	-
INTERFUND PAYABLES	157,365	-
PUBLIC WORKS TRUST FUND LOANS PAYABLE-CURRENT	221,522	-
REVENUE BONDS PAYABLE-CURRENT (NET OF UNAMORTIZED PREMIUM/DISCOUNT)	515,000	-
GENERAL OBLIGATION BONDS PAYABLE-CURRENT	220,047	-
ACCRUED INTEREST	37,218	-
DEPOSITS	3,299	-
DUE TO OTHER GOVERNMENTAL UNITS	136,762	-
OTHER LIABILITIES PAYABLE	185,744	-
TOTAL CURRENT LIABILITIES	2,644,646	93,296
LONG-TERM LIABILITIES:		
DEFERRED CREDITS	218,365	-
LOANS PAYABLE	2,186,383	-
REVENUE BONDS PAYABLE	12,735,000	-
GENERAL OBLIGATION BONDS PAYABLE	3,100,526	-
TOTAL LONG-TERM LIABILITIES	18,240,274	-
TOTAL LIABILITIES	20,884,920	93,296
NET POSITION:		
INVESTED IN CAPITAL ASSETS, NET OF RELATED DEBT	55,063,391	2,026,934
RESTRICTED FOR:		
DEBT SERVICE	984,163	-
CUSTOMER DEPOSITS	3,299	-
CONSTRUCTION	6,422,020	-
UNRESTRICTED	3,959,046	4,509,350
TOTAL NET ASSETS	$ 66,431,919	$ 6,536,284

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

CITY OF EDMONDS, WASHINGTON

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION

PROPRIETARY FUNDS

FOR THE YEAR ENDED DECEMBER 31, 2012

	411 / 412 / 414 COMBINED UTILITY FUNDS	GOVERNMENTAL ACTIVITIES INTERNAL SERVICE FUNDS
OPERATING REVENUES:		
CHARGES FOR SERVICES	$ 13,646,242	$ 1,077,456
OTHER OPERATING REVENUE	2,320,443	-
TOTAL OPERATING REVENUES	15,966,685	1,077,456
OPERATING EXPENSES:		
PERSONNEL SERVICES	3,954,711	297,831
OPERATIONS & MAINTENANCE	7,715,029	508,850
PROFESSIONAL SERVICES	382,535	615
INSURANCE	242,229	32,530
DEPRECIATION/AMORTIZATION	2,627,060	337,943
TOTAL OPERATING EXPENSES	14,921,564	1,177,769
OPERATING INCOME (LOSS)	1,045,121	(100,313)
NON-OPERATING REVENUE (EXPENSE):		
INTERGOVERNMENTAL	82,530	-
INVESTMENT EARNINGS	22,786	6,487
OTHER NON-OPERATING REVENUES	-	6,549
GAIN (LOSS) ON SALE OF CAPITAL ASSETS	-	(151,032)
INTEREST EXPENSE	(336,733)	-
TOTAL NON-OPERATING REVENUE (EXPENSE)	(231,417)	(137,996)
INCOME (LOSS) BEFORE CONTRIBUTIONS & TRANSFERS	813,704	(238,309)
CAPITAL CONTRIBUTIONS	1,027,212	-
TRANSFERS IN (Note 6)	-	111,700
TRANSFERS OUT (Note 6)	(565,628)	-
CHANGE IN NET POSITION	1,275,288	(126,609)
TOTAL NET POSITION BEGINNING OF YEAR	65,558,827	6,662,893
PRIOR PERIOD ADJUSTMENT	(402,196)	-
TOTAL NET POSITION END OF YEAR	$ 66,431,919	$ 6,536,284

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

CITY OF EDMONDS, WASHINGTON

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2012

	411 / 412 / 414 COMBINED UTILITY FUNDS	GOVERNMENT ACTIVITIES INTERNAL SERVICE FUNDS
CASH FLOWS FROM OPERATING ACTIVITIES:		
CASH RECEIVED FROM USERS	$ 15,799,478	$ 1,077,456
CASH PAID TO SUPPLIERS	(9,123,427)	(523,801)
CASH PAID FOR INVENTORY	1,438	(49,133)
CASH PAID TO EMPLOYEES	(3,931,597)	(332,196)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	2,745,892	172,325
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
INTERFUND LOAN	9,575	-
INTERGOVERNMENTAL TRANSFER	82,530	-
TRANSFERS IN	-	111,700
TRANSFERS OUT	(565,628)	-
NET CASH PROVIDED (USED) BY NON-CAPITAL FINANCING ACTIVITIES	(473,523)	111,700
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
PROCEEDS FROM SALE OF EQUIPMENT	-	15,331
PURCHASE OF CAPITAL ASSETS	(4,685,449)	(490,323)
CONTRIBUTED CAPITAL	1,027,212	-
PROCEEDS FROM INSURANCE SETTLEMENT	-	6,549
PRINCIPAL PAYMENT ON DEBT	(909,221)	-
INTEREST PAYMENT ON DEBT	(590,685)	-
NET CASH PROVIDED (USED) FOR CAPITAL AND RELATED FINANCING ACTIVITIES	(5,158,143)	(468,443)
CASH FLOW FROM INVESTING ACTIVITIES:		
INTEREST RECEIVED	22,786	6,487
NET CASH PROVIDED (USED) IN INVESTING ACTIVITIES	22,786	6,487
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(2,862,988)	(177,930)
CASH AND CASH EQUIVALENTS-BEGINNING OF YEAR	19,073,399	4,696,305
CASH AND CASH EQUIVALENTS-END OF YEAR	$ 16,210,411	$ 4,518,375
CASH AT END OF YEAR CONSISTS OF:		
CASH AND CASH EQUIVALENTS	15,226,248	$ 4,518,375
RESTRICTED CASH-BOND PAYMENTS	984,163	-
TOTAL CASH	$ 16,210,411	$ 4,518,375

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

CITY OF EDMONDS, WASHINGTON

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2012

	411 / 412 / 414 COMBINED UTILITY FUNDS	GOVERNMENT ACTIVITIES INTERNAL SERVICE FUNDS
RECONCILIATION OF NET OPERATING INCOME TO NEW CASH PROVIDED BY OPERATING ACTIVITIES		
OPERATING INCOME (LOSS)	$ 1,045,120	$ (100,314)
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
DEPRECIATION	2,627,060	337,943
ASSET (INCREASES) DECREASES :		
DUE FROM OTHER GOVERNMENTAL UNITS	361,182	(704)
MISCELLANEOUS A/R-REVENUE	(211,614)	-
INVENTORY	1,438	(49,133)
LIABILITY INCREASES (DECREASES) :		
ACCOUNTS & VOUCHERS PAYABLE	(1,069,087)	18,898
DEPOSITS PAYABLE	(1,399)	-
WAGES & BENEFITS PAYABLE	23,114	(34,365)
DUE TO GOVERNMENTAL UNIT	48,779	-
OTHER LIABILITIES	(75,728)	-
DEFERRED REVENUE	(2,974)	-
TOTAL ADJUSTMENTS	1,700,771	272,639
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	$ 2,745,892	$ 172,325

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

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FIDUCIARY FUNDS

Fiduciary funds are used to account for assets held by the City of Edmonds as a trustee or agent for various individuals, private organizations, and other governmental units. The Firemen's Pension Fund is accounted for on an accrual basis.

TRUST FUNDS

The Firemen's Pension Fund

This fund accounts for the payment of administrative costs and benefits for retired firefighters (and beneficiaries) who were employed prior to March 1, 1970. Primary revenue sources are transfers-in from the general fund, fire insurance premium tax, and investment interest, in accordance with actuarial recommendations.

CITY OF EDMONDS, WASHINGTON

STATEMENT OF FIDUCIARY NET POSITION

FIDUCIARY FUNDS

DECEMBER 31, 2012

		617 FIREMEN'S PENSION FUND
ASSETS:		
CASH AND CASH EQUIVALENTS	$	221,735
TOTAL ASSETS	$	221,735
LIABILITIES:		
CURRENT PAYABLES	$	5,016
TOTAL LIABILITIES		5,016
NET POSITION:		
HELD IN TRUST FOR PENSION BENEFITS AND OTHER PURPOSES	$	216,719

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

CITY OF EDMONDS, WASHINGTON

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

FIDUCIARY FUNDS

FOR THE YEAR ENDED DECEMBER 31, 2012

		617 FIREMEN'S PENSION FUND
ADDITIONS:		
EMPLOYER CONTRIBUTIONS	$	48,023
FIRE INSURANCE PREMIUMS		44,665
INVESTMENT EARNINGS		301
TOTAL ADDITIONS		92,989
DEDUCTIONS:		
BENEFIT PAYMENTS		88,415
PROFESSIONAL SERVICES		1,065
TOTAL DEDUCTIONS		89,480
CHANGE IN NET POSITION		3,509
NET POSITION - BEGINNING		213,210
NET POSITION - ENDING	$	216,719

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

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City of Edmonds

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. REPORTING ENTITY

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

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

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

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

In 2008 the PFD issued bonds to retire short-term debt it had issued to complete construction of the Edmonds Center for the Arts. The PFD is currently not able to meet its debt service obligation on the 2008 bonds. However, the City guarantees repayment of those bonds through a Contingent Loan Agreement. Advances by the City to the PFD for debt service on the 2008 bonds are shown in the City’s Statement of Net Position as a Due from Component Unit. More information about the PFD, including complete financial statements, can be obtained from Edmonds Performing Arts Center, c/o Joe 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 16 for additional information.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

- Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition , construction, or improvement of those assets.

- Restricted Net Position result when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation.

- Unrestricted Net Position consists of Net Position that does not meet the definition of the two preceding categories. Unrestricted Net Position often is designated to indicate that management does not consider them available for general operations. Unrestricted Net Position often has constraints on resources that are imposed by management, but can me modified or removed.

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

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

The *modified accrual basis* of accounting is followed in all governmental and permanent funds of the City. Under the modified accrual basis of accounting, revenues are recognized when measurable and available. Revenues are generally considered available if they are collected within the current period or soon enough thereafter (60 days) to pay current liabilities. For derived tax revenues, such as sales tax and utility business and occupation taxes, revenues are recognized in the period when the underlying exchange has occurred. For imposed non-exchange taxes, such as property taxes, revenues are recognized when the use of resources is permitted, or when resources are available. Grant revenue is recognized in the period in which the expenditure occurs and the eligibility requirements have been met. Non-exchange transactions, such as contributions, are recognized when the donation eligibility requirements have been satisfied. Those specific major revenue sources accrued are:

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

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

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

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

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

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

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

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

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

D. BUDGET AND BUDGETARY ACCOUNTING

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

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

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

E. ASSETS, LIABILITIES, AND FUND EQUITY

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

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

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

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

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

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

Property tax is recorded as a receivable and revenue when levied. Property tax collected in advance of the fiscal year to which it applies is recorded as 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 2012, the City levied the following property taxes on an assessed value of $5,794,644,465. The special levies identified in the table were approved by the voters and are not subject to the limitation listed above.

Purpose of the Levy	Levy Rate per $1,000	Total Levy Amount
General Government	$1.6608	$ 9,623,702
Emergency medical service (EMS)	0.5000	2,897,322
Debt Service on voter approved general obligation bonds	0.1651	895,640
Total City Levy	$2.3259	$13,416,664

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, 2012 the City had $984,163 cash in the enterprise fund restricted for debt service.

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

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

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

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

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

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

Land and construction in progress are not depreciated. Buildings, equipment, non-building improvements and intangible assets are depreciated using the straight line method, using varying estimated service lives for individual assets and asset classifications depending on particular characteristics of an asset and factors surrounding its anticipated use. Depreciation is reported as part of the related program expense column on government-wide statement of activities and as a fund expense in the proprietary funds, while not reported in the fund statements of governmental funds.

Capital assets are reported net of accumulated depreciation on the government-wide statement of Net Position and in the proprietary funds statement of Net Position, while not reported in the governmental fund balance sheets. Refer to note 8 for additional information regarding capital assets.

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

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

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

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

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

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

F. FUND BALANCES

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

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

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

- Restricted fund balances have constraints placed upon the use of the resources either by an external party or imposed by law through a constitutional provision or enabling legislation.

- Committed fund balance can be used only for specific purposes pursuant to constraints imposed by a formal action of the City Council, the City's highest level of decision-making authority. This formal action is the passage of an ordinance by City Council creating, modifying, or rescinding an appropriation.

- Assigned fund balance includes amounts that are constrained by the City's intent to be used for a specific purpose, but are neither restricted nor committed. For governmental funds, other than the general fund, this is the residual amount within the fund that is not restricted or committed.

- Unassigned fund balance is the residual amount of the general fund not included in the four categories described above. Also, any deficit fund balances within the other governmental fund types are reported as unassigned.

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

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

G. REVENUES, EXPENDITURES AND EXPENSES

Under the *modified accrual* basis of accounting:

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

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

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

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

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

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

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

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

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

Under the *accrual* basis of accounting:

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

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

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

H. ESTIMATES

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

I. CHANGES IN ACCOUNTING STANDARDS

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

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

There have been no material violations of contract provisions. At December 31, 2012 Fund 130 – Cemetery Maintenance/Improvement exceeded its budget by $1,340.

All funds amended expenditure budgets totaled $89,730,241, which includes $18,876,741 of supplemental appropriations. Funds with supplemental appropriations during 2012 and the amounts are shown below:

Fund Number	Fund Description	2012 Original Budget	2012 Supplemental Appropriations	2012 Amended Budget
001	General Fund	$ 32,949,288	$ 2,889,214	$ 35,838,502
004	Criminal Investigations	-	2,500	2,500
006	Emergency/Financial Reserve	-	1,927,600	1,927,600
009	Leoff-Medical Ins. Reserve	619,811	-	619,811
010	Public Safety Emergency Reserve	-	1,339,400	1,339,400
011	Risk Management Reserve Fund	-	139,100	139,100
014	Historic Preservation Gift Fund	-	8,500	8,500
104	Drug Enforcement Fund	80,233	-	80,233
111	Street Fund	1,604,948	71,800	1,676,748
112	Combined Street Const/Improve	2,075,625	866,841	2,942,466
116	Building Maintenance	245,000	-	245,000
117	Municipal Arts Acquis. Fund	134,550	-	134,550
118	Memorial Street Tree	-	140	140
120	Hotel/Motel Tax Revenue Fund	73,750	(17,250)	56,500
121	Employee Parking Permit Fund	26,086	400	26,486
122	Youth Scholarship Fund	4,000	-	4,000
123	Tourism Promotional Fund/Arts	19,000	5,500	24,500
125	Park Acq/Improvement	875,000	210,000	1,085,000
126	Special Capital Fund	697,717	-	697,717
127	Gifts Catalog Fund	12,275	11,204	23,479
129	Special Projects Fund	313,000	170,500	483,500
130	Cemetery Maintenance/Improv	172,005	-	172,005
132	Parks Construction	1,187,000	274,343	1,461,343
136	Parks Trust Fund	-	6,930	6,930
138	Sister City Commission	4,600	-	4,600
211	Lid Fund Control	46,500	105,000	151,500
213	Lid Guaranty Fund	-	244,000	244,000
231	2012 LTGO Debt Service Fund	-	9,363,474	9,363,474
234	Ltgo Bond Debt Service Fund	478,573	-	478,573
411	Combined Utility Operation	15,598,246	(219,044)	15,379,202
412	Combined Utility Const/Improve	10,465,068	854,750	11,319,818
414	Capital Improvements Reserve	1,126,376	445,139	1,571,515
511	Equipment Rental Fund	1,321,334	131,700	1,453,034
617	Firemen's Pension Fund	123,515	-	123,515
631	Transportation Benefit District	600,000	45,000	645,000
	Totals	$ 70,853,500	$ 18,876,741	$ 89,730,241

NOTE 3 – DEPOSITS AND INVESTMENTS

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

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

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

The City held no debt securities as of December 31, 2012.

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

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

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.

Concentration of Credit Risk. Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. The City diversifies its investments by security type and institution. The investment policy states: “No more than fifty percent (50%) of the City’s portfolio, at the time of purchase, shall be in any single financial institution” with the exception of US Treasury securities and the State Investment Pool.

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

Deposits	$ 9,470,528
Local Government Investment Pool	21,033,910
Investments	3,493,760
	$ 33,998,198

Financial Statements

	Governmental Activities	Business-type Activities	Total Primary Govt.	Fiduciary Funds	Total
Cash and Cash Equivalents	$ 14,072,292	$ 15,226,248	$ 29,298,540	$ 221,735	$ 29,520,275
Restricted Cash and Cash Equivalents	-	984,163	984,163	-	984,163
Investments	3,493,760	-	3,493,760	-	3,493,760
	$ 17,566,052	$ 16,210,411	$ 33,776,463	$ 221,735	$ 33,998,198

NOTE 4 – PROPERTY TAXES

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

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

Property tax is recorded as a receivable and revenue when levied. Property tax collected in advance of the fiscal year to which it applies is recorded as 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.

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

The City's regular levy for 2012 was $1.8259 per $1,000 on an assessed valuation of $5,794,644,465 for a total regular levy of $13,416,664. The special levies identified in the table were approved by the voters and are not subject to the limitations listed above.

Purpose of the Levy	Levy Rate per $1,000	Total Levy Amount
General Government	$1.6608	$ 9,623,702
Emergency medical service (EMS)	0.5000	2,897,322
Debt Service on voter approved general obligation bonds	0.1651	895,640
Total City Levy	$2.3259	$13,416,664

NOTE 5 – RECEIVABLES AND PAYABLES

Receivables at December 31, 2012, are as follows:

	Customer Accounts	Taxes	Special Assessments	Due From Other Governments	Due from Component Units	Total
Governmental Activities						
General Fund	$ 690,311	$ 401,663	$ -	$ 1,398,308	$ 5,520,631	$ 8,010,913
Other Governmental Funds	10,767	-	126,578	1,863,252	-	2,000,597
Internal Service	1,192	-	-	1,557	-	2,749
Total Governmental Activities	$ 702,269	$ 401,663	$ 126,578	$ 3,263,118	$ 5,520,631	$ 10,014,259
Business-type Activities						
Combined Utility Fund	$ 2,259,942	$ -	$ -	$ 589,298	$ -	$ 2,849,240
Total Business-type Activities	$ 2,259,942	$ -	$ -	$ 589,298	$ -	$ 2,849,240

Payables at December 31, 2012, are as follows:

	Salaries and Benefits	Accounts Payable	Due to Other Governments	Other Current Liabilities	Total
Governmental Activities					
General Fund	$ 1,116,831	$ 482,057	$ -	$ 97,828	$ 1,696,716
Other Governmental Funds	33,458	506,686	-	1,024	541,169
Internal Service	11,066	59,832	-	-	70,898
Total Governmental Activities	$ 1,161,356	$ 1,048,575	$ -	$ 98,852	$ 2,308,783
Business-type Activities					
Combined Utility Fund	$ 202,476	$ 561,963	$ 136,762	$ 185,744	$ 1,086,946
Total Business-type Activities	$ 202,476	$ 561,963	$ 136,762	$ 185,744	$ 1,086,946

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. A new agreement was signed in May 2004 with T-Mobile West Corporation amending the original lease agreement. The new lease has a term of 20 years. The annual rental fee may be reviewed upon either party's prior written request sixty days prior to the renewal date only on every 5th anniversary of the commencement date. Along with the actual tower lease, there are two sub-leases to co-locate on the tower leased to T-Mobile. The first lease with AT&T Wireless Services was signed in 1997 for a five-year term and could be renewed for three additional five-year periods for a total of 20 years. Clearwire, LLC signed a five-year lease in May of 2006 subject to renewal for three additional five year periods for a total of 20 years.

The Edmonds City Council entered into a settlement agreement purchasing property located at 20719 86th Place West in April of 2011. The City entered into a property management agreement with Windermere Real Estate / North Inc in June of 2011 for one year appointing Windemere to rent, lease operate and manage the property. The property located at 20719 86th PL W has an original cost of $302,471 and a book value of $288,171. Depreciation expense for 2012 was $8,177.

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 22 spaces. The recreation leases are renewed annually. The Anderson Center has an original cost of $3,056,857 and a book value of $1,408,943. Depreciation expense for 2012 was $81,986.

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 Foundation 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 $44,876. Depreciation expense for 2012 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 $1,657,932. Depreciation expense for 2012 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 $91,270. Depreciation expense for 2012 was $23,303.

In August of 2010, an Interlocal Agreement was signed with the City of Lynnwood for use of the City of Edmonds Municipal Court for video hearings. The Lynnwood Municipal Court terminated their agreement with the City of Edmonds as of 10/12/2012.

In 2012, the General Fund received $159,588 and the Enterprise Fund received $55,180 in rental income.

NOTE 6 – INTERFUND ACTIVITY

There was one interfund balance as of December 31, 2012. It was for the transfer of utility tax revenues from the Utility Fund to the General Fund for services rendered in the amount of $157,364.

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 three significant transfers in 2012 to establish the Contingency Reserve Fund. These three transfers totaled $5.3 million from Funds 001, 006, and 010. 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	Enterprise	Total
General Fund	$ 276,016	$ 0	$ 276,016	$ -	$ 276,016
Other Governmental	1,900,693	217,196	1,117,869	565,628	1,900,693
Internal Service	111,700	105,100	6,600	-	111,700
Total	$ 2,288,410	$ 322,297	$ 1,400,485	$ 565,628	$ 2,288,410

NOTE 7 – RESTRICTED COMPONENT OF NET POSITION

The government-wide statement of net position reports $3,793,023 for Governmental Activities and $7,409,482 for Business-Type Activities of restricted component of net position.

Governmental Activities Restricted for:	
Debt service restrictions	$ 26,229
Per RCW, proceeds from seizures are limited to law enforcement activities exclusively	118,537
Restricted per RCW related to state fuel taxes, transportation benefit fees, impact fees and grant agreements	507,242
Restricted per RCW related to REET revenue and lodging tax restrictions, private donors, and grant agreements	3,022,707
Per RCW, proceeds are limited to paying "all or part of the cost of tourism promotion"	103,792
Restricted by grant agreements and private donations limited to a specific purpose	14,516
Total Restricted Component of Net Position	$ 3,793,023

Business-Type Activities Restricted for:	
Customer deposits	$ 3,299
Debt service restrictions	984,163
Unspent capital project debt proceeds	6,422,020
Total Restricted Component of Net Position	$ 7,409,482

NOTE 8 – CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the year ended December 31, 2012 is as follows:

Schedule of Capital Asset Activity	Balance 1/1/2012	Increases	Decreases	Balance 12/31/2012
Governmental Activities				
Capital assets, not being depreciated:				
Land	$ 14,530,663	$ -	$ -	$ 14,530,663
Construction in Progress	8,690,704	3,016,976	(2,072,069)	9,635,611
Total capital assets, not being depreciated:	23,221,367	3,016,976	(2,072,069)	24,166,274
Capital assets, being depreciated:				
Building	25,479,908	-	-	25,479,908
Improvements other than buildings	13,531,609	-	-	13,531,609
Infrastructure	55,732,774	2,052,181	-	57,784,955
Machinery and Equipment	7,542,487	520,756	(677,268)	7,385,975
Total capital assets being depreciated:	102,286,778	2,572,937	(677,268)	104,182,447
Less accumulated depreciation for:				
Buildings	(12,694,978)	(842,494)	-	(13,537,472)
Improvements other than buildings	(6,340,401)	(396,704)	-	(6,737,105)
Infrastructure	(28,637,423)	(2,394,759)	-	(31,032,182)
Machinery and Equipment	(5,119,783)	(396,042)	510,905	(5,004,920)
Total accumulated depreciation:	(52,792,585)	(4,029,999)	510,905	(56,311,679)
Total capital assets, being depreciated, net:	49,494,192	(1,457,062)	(166,363)	47,870,767
Governmental activities capital assets, net:	$ 72,715,560	$ 1,559,914	$(2,238,432)	$ 72,037,042

Business-type Activities				
Capital assets, not being depreciated:	Beginning	Increases	Decreases	Ending
Land	$ 1,257,106	$ -	$ -	$ 1,257,106
Construction in Progress	7,558,755	4,042,074	(5,439,555)	6,161,274
Total capital assets, not being depreciated:	8,815,861	4,042,074	(5,439,555)	7,418,380
Capital assets, being depreciated:				
Building	36,888,321	-	-	36,888,321
Improvements other than buildings	55,558,005	6,088,310	-	61,646,315
Machinery and Equipment	908,194	-	-	908,194
Intangible Assets	1,260,260	-	-	1,260,260
Total capital assets being depreciated:	94,614,780	6,088,310	-	100,703,090
Less accumulated depreciation for:				
Buildings	(14,602,449)	(704,272)	-	(15,306,721)
Improvements other than buildings	(21,498,501)	(1,834,661)	-	(23,333,162)
Machinery and Equipment	(641,757)	(36,227)	-	(677,984)
Intangible Assets	(913,484)	(51,900)	-	(965,384)
Total accumulated depreciation:	(37,656,192)	(2,627,060)	-	(40,283,252)
Total capital assets, being depreciated, net:	56,958,588	3,461,250	-	60,419,838
Business activities capital assets, net:	$ 65,774,450	$ 7,503,324	$(5,439,555)	$ 67,838,219

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

Depreciation Expense by Function	
Governmental Activities:	
General government	$ 673,108
Public safety	300,525
Culture and recreation	314,450
Transportation	2,398,681
Physical Environment	5,291
Internal service	337,943
Total depreciation expense - Governmental Activities	$ 4,029,999

Business-Type Activities:	
Stormwater	$ 411,854
Water	524,345
Sewer	357,636
Wastewater Treatment	1,333,225
Total depreciation expense - Business Type Activities	$ 2,627,060

NOTE 9 – RECORDED VACATION AND SICK LEAVE

In accordance with GASB Statement No. 16, the City accrues vacation and sick leave pay. The accrual is shown on the government-wide statement of Net Position for both governmental and proprietary funds. The accrual is also seen in the separate proprietary fund balance sheets, but is excluded from the separate governmental fund balance sheets since it is not currently due and payable at year-end (please refer to note 11).

NOTE 10 – PENSION PLANS

Substantially all City full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit retirement plans. The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to: Department of Retirement Systems, Communications Unit, P.O. Box 48380, Olympia, WA 98504-8380; or it may be downloaded from the DRS website at www.drs.wa.gov. The following disclosures are made pursuant to GASB Statements No. 27, Accounting for Pensions by State and Local Government Employers and No. 50, Pension Disclosures, an Amendment of GASB Statements No. 25 and No. 27.

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

Plan Description

The Legislature established PERS in 1947. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior employees of legislative committees; community and technical colleges, college and university employees not participating in higher education retirement programs; employees of district and municipal courts; and employees of local governments. Approximately 50 percent of PERS salaries are accounted for by state employment. PERS retirement benefit provisions are established in Chapters 41.34 and 41.40 RCW and may be amended only by the State Legislature.

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

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

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

PERS Plan 1 and Plan 2 retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the PERS Plan 1 and Plan 2 defined benefit plans accrue interest at a rate specified by the Director of DRS. During DRS' Fiscal 2012, the rate was five and on-half percent compounded quarterly. Members of PERS Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest thereon upon separation from PERS-covered employment

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

Plan 1 members are eligible for retirement after 30 years of service, or at the age of 60 with five years of service, or at the age of 55 with 25 years of service. The monthly benefit is 2 percent of the average final compensation (AFC) per year of service, but the benefit may not exceed 60 percent of the AFC. The AFC is the monthly average of the 24 consecutive highest-paid service credit months.

The monthly benefit is subject to a minimum for retirees who have 25 years of service and have been retired 20 years, or who have 20 years of service and have been retired 25 years. If a survivor option is chosen, the benefit is further reduced. Plan 1 members retiring from inactive status prior to the age of 65 may also receive actuarially reduced benefits. Plan 1 members may elect to receive an optional COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 provides duty and non-duty disability benefits. Duty disability retirement benefits for disablement prior to the age of 60 consist of a temporary life annuity. The benefit amount is $350 a month, or two-thirds of the monthly AFC, whichever is less. The benefit is reduced by any workers' compensation benefit and is payable as long as the member remains disabled or until the member attains the age of 60, at which time the benefit is converted to the member's service retirement amount. A member with five years of covered employment is eligible for non-duty disability retirement. Prior to the age of 55, the benefit amount is 2 percent of the AFC for each year of service reduced by 2 percent for each year that the member's age is less than 55. The total benefit is limited to 60 percent of the AFC and is actuarially reduced to reflect the choice of a survivor option. Plan 1 members may elect to receive an optional COLA amount (based on the Consumer Price Index), capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 members can receive credit for military service while actively serving in the military if such credit makes them eligible to retire. Members can also purchase up to 24 months of service credit lost because of an on-the-job injury.

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

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

PERS Plan 2 members who have at least 20 years of service credit and are 55 years of age or older are eligible for early retirement with a reduced benefit. The benefit is reduced by an early retirement factor (ERF) that varies according to age, for each year before age 65.

PERS Plan 2 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions:

With a benefit that is reduced by 3 percent for each year before age 65.

With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

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

PERS plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component and member contributions finance a defined contribution component. As established by Chapter 41.34 RCW, employee contribution rates to the defined contribution component range from 5 percent to 15 percent of salaries, based on member choice. There are currently no requirements for employer contributions to the defined contribution component of PERS Plan 3.

PERS Plan 3 defined contribution retirement benefits are dependent upon the results of investment activities. Members may elect to self-direct the investment of their contributions. Any expenses incurred in conjunction with self-directed investments are paid by members. Absent a member's self-direction, PERS Plan 3 investments are made in the same portfolio as that of the PERS 2/3 defined benefit plan.

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

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

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

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

If they have at least ten service credit years and are 55 years old, the benefit is reduced by an ERF that varies with age, for each year before age 65.

If they have 30 service credit years and are at least 55 years old, they have the choice of benefit that is reduced by 3 percent for each year before age 65; or a benefit with a smaller (or no) reduction factor (depending on age) that imposes stricter return-to-work rules.

PERS Plan 3 benefit retirement benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

PERS Plan 2 and Plan3 provide disability benefits. There is no minimum amount of service credit required for eligibility. The plan 2 monthly benefit amount is 2 percent of the AFC per year if service. For Plan 3, the monthly benefit amount is 1 percent of the AFC per year of service. These disability benefit amounts are actuarially reduced for each year that the member's age is less than 65, and to reflect the choice of a survivor option. There is no cap on years of service credit, and a cost-if-living allowance is granted (based on the Consumer Price Index) capped at 3 percent annually.

PERS Plan 2 and Plan 3 members may have up to ten years of interruptive military service credit; five years at no cost and five years that may be purchased by paying the required contributions.

PERS Plan 2 and Plan 3 members who become totally incapacitated for continued employment while serving the uniformed services, or a surviving spouse or eligible child(ren), may request interruptive military service credit.

PERS Plan 2 and Plan 3 members can purchase up to 24 months of service credit lost because of an on-the-job injury.

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

Beneficiaries of a PERS Plan 2 or Plan3 member with ten years of service who is killed in the course of employment receive retirement benefits without actuarial reduction. This provision applies to any member killed in the course of employment, on or after June 10, 2004, if found eligible by the Director of the Department of Labor and Industries.

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

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

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

Newly elected or appointed justices and judges who chose to become PERS members on or after January 1, 2007, or who had not previously opted into PERS membership, were required to participate in the JBM Program. Members required into the JBM program would: return to prior PERS Plan if membership had previously been established; be mandated into Plan 2 and not have a Plan 3 transfer choice, if a new PERS member; accrue the higher multiplier for all judicial service; not contribute to JRA; and not have the option to increase the multiplier for past judicial service.

There are1,184 participating employers in PERS. [1] Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2011:

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

Funding Policy

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

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

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

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2012, are as follows:

Members Not Participating in JBM:

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

* The employer rates include the employer administrative expense fee currently set at 0.16%.
** The employer rate for state elected officials is 10.74% for Plan 1 and 7.21% for Plan 2 and Plan 3.
*** Plan 3 defined benefit portion only.
**** The employee rate for state elected officials is 7.50% for Plan 1 and 4.64% for Plan 2.
***** Variable from 5.0% minimum to 15.0% maximum based on rate selected by the PERS 3 member.

Members Participating in JBM:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer-State Agency*	9.71%	9.71%	9.71% **
Employer-Local Government*	7.21%	7.21%	7.21% **
Employee-State Agency	9.76%	9.10%	7.5% ***
Employee-Local Government	12.26%	11.60%	7.5% ***

* The employer rates include the employer administrative expense fee currently set at 0.16%.
** Plan 3 defined benefit portion only.
***Minimum rate.

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

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2012	$ 26,031	$ 631,650	$ 83,572
2011	$ 16,259	$ 541,368	$ 68,507
2010	$ 22,090	$ 470,368	$ 45,011

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

Plan Description

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

LEOFF is a cost-sharing multiple-employer retirement system comprised of two separate defined benefit plans. LEOFF members who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after 25 October 1, 1977 are Plan 2 members.

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

LEOFF retirement benefits are financed from a combination of investment earnings, employer and employee contributions, and a special funding situation in which the state pays through state legislative appropriations. Employee contributions to the LEOFF Plan 1 and Plan 2 defined benefit plans accrue interest at a rate specified by the Director of DRS. During DRS' fiscal year 2012, the rate was five and one-half percent compounded quarterly. Members in LEOFF Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest earnings upon separation from LEOFF-covered employment.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Beneficiaries of a LEOFF Plan 2 member who is killed in the course of employment receive retirement benefits without actuarial reduction, if found eligible by the Director of the Department of Labor and Industries. Benefits to eligible surviving spouses and dependent children of LEOFF Plan 2 members killed in the course of employment include the payment of on-going health care insurance premiums paid to the Washington state Health Care Authority.

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

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

There are 373 participating employers in LEOFF. [1] Membership in LEOFF consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2011:

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

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

The Legislature, by means of a special funding arrangement, appropriated money from the state General Fund to supplement the current service liability and fund the prior service costs of Plan 2 in accordance with the recommendations of the Pension Funding Council and the LEOFF Plan 2 Retirement Board. 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. For DRS' fiscal year 2012, the state contributed $52.8 million to the LEOFF Plan 2.

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

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2012, are 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. [2] The city's required contributions for the years ended December 31 were as follows:

	LEOFF Plan 1	LEOFF Plan 2
2012	$0	$273,236
2011	$0	$274,168
2010	$0	$274,168

Firemen's Pension

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

retained the responsibility for a portion of the benefits payable to members who were active on that date.

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

This system is a closed, single-employer, defined benefit pension system. All City firefighters who served before March 1, 1970 are participants of this pension fund. Benefits are established in accordance with Revised Code of Washington (RCW) 41.18 and 41.20. At December 31, 2012, there were four retirees receiving pension and medical benefits from this fund.

Firefighters hired between March 1, 1970 and September 30, 1977 are members of the LEOFF 1 pension system and are also eligible for a supplemental retirement benefit plus health benefits under the City plan. Generally, benefits under the LEOFF 1 retirement benefit system are greater than or equal to the retirement benefits under the City plan. However, should the benefits under the old law exceed those under LEOFF 1 the City becomes liable for the excess benefits. As such, the laws require the payment of excess benefits only and do not require a specific contribution rate by the City. At December 31, 2012 there were 26 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, 2012 the Fire Pension Fund did not hold any investments. The net pension obligation has been recorded as a noncurrent liability on the City's government-wide statement of Net Position.

THREE YEAR TREND INFORMATION

Fiscal Year Ending 12/31	Annual Pension Cost (APC)	Contribution as a Percentage of APC	Net Pension Obligation (NPO)
2010	$ 35,461	88%	$ 181,254
2011	32,582	-19%	220,065
2012	30,690	137%	208,751

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

	12/31/2010	12/31/2011	12/31/2012
Annual Normal Cost (BOY)	$ -	$ -	$ -
Amortization of UAAL (BOY)	39,330	37,117	37,117
Interest to EOY [(1)+(2)]x(i)*	1,573	1,485	1,485
Annual Required Contribution (ARC) at EOY [(1)+(2)+(3)]	$ 40,903	$ 38,602	$ 38,602
Interest on NPO	7,080	7,250	8,803
Adjustment to ARC	12,522	13,270	16,715
Annual pension cost (APC) [(4)+(5)-(6)]	$ 35,461	$ 32,582	$ 30,690
Employer Contributions**	31,197	(6,229)	42,004
Change in NPO [(7)-(8)]	4,264	38,811	(11,314)
NPO at BOY [(11) prior year]	$ 176,990	$ 181,254	$ 220,065
NPO at EOY [(9)+(10)]	$ 181,254	$ 220,065	$ 208,751

* 'i' is the assumed interest rate that year: 4.0% in 2010, 4.0% in 2011, 4.0% in 2012.

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

Actuarial Information

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

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

Significant actuarial assumptions used in the valuation include:

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

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

Municipal Employees Benefits Trust (MEBT)

Full- and qualifying part-time City employees participate in the City-defined contribution plan. By majority vote, City employees approved the City's withdrawal from the Social Security System pursuant to 2 U.S.C.A., Sec. 418 (g) effective July 1, 1977. City employees who customarily work 1,000 or more hours per year and who otherwise would be eligible for Social Security coverage and benefits are required to participate. Both the City and participants are required to contribute an amount equal to the current Federal Insurance Contributions Act (FICA) tax rate. The City's contribution for fiscal year 2012 was $993,908 which represents its full liability.

For the year ending December 31, 2012, the City's covered payroll was $15,702,016. The City's total current year payroll for all employees is $16,051,822. No significant benefit changes occurred in 2012.

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 11 – 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 10 firefighters referenced in the Fireman’s Pension Fund there currently 19 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 $350,447 and long-term care costs of $174,607 were reported in the LEOFF 1 Medical Reserve Fund 009. At December 31, 2012 there was $410,197 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
2010	$ 587,305	89%	$ 383,211
2011	593,358	91%	437,472
2012	591,657	99%	445,956

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

	12/31/2010	12/31/2011	12/31/2012
Annual Normal Cost (BOY)	$ -	$ -	$ -
Amortization of UAAL (BOY)	570,510	577,965	577,965
Interest to EOY [(1)+(2)]x(i)*	22,820	23,119	23,119
Annual Required Contribution (ARC) at EOY [(1)+(2)+(3)]	$ 593,330	$ 601,084	$ 601,084
Interest on Net OPEB Obligation	12,763	15,328	17,499
Adjustment to ARC	18,788	23,054	26,926
Annual pension cost (APC) [(4)+(5)-(6)]	$ 587,305	$ 593,358	$ 591,657
Employer Contributions**	523,170	539,097	583,173
Change in Net OPEB Obligation [(7)-(8)]	64,135	54,261	8,484
Net OPEB Obligation at BOY [(11) prior year]	$ 319,076	$ 383,211	$ 437,472
Net OPEB Obligation at EOY [(9)+(10)]	$ 383,211	$ 437,472	$ 445,956

* 'i' is the assumed interest rate that year: 4.0% in 2010, 4.0% in 2011, 4.0% in 2012.

Actuarial Information

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

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

Significant actuarial assumptions used in the valuation include:

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

- Asset valuation method N/A

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 or by calling 1-800-562-8981..

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 the following amounts: AWC Healthfirst 1000 Plan $789.14 per month for non-Medicare enrolled retiree-only coverage, $1,584.71 for non-Medicare enrolled retiree and spouse coverage, $421.75 for Medicare enrolled retiree and $855.23 for Medicare enrolled retiree and spouse coverage, and for the HealthFirst 2500 Plan $689.11 per month for non-Medicare enrolled retiree-only coverage, $1,382.77 for non-Medicare enrolled retiree and spouse coverage, $369.29 for Medicare enrolled retiree and $747.59 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 18.2 percent. The City's contribution to the Trust for the year ended December 31, 2012 was $2,754,438, 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 12 – LONG-TERM DEBT

The City of Edmonds' issues general obligation and revenue bonds to finance the acquisition and construction of major capital facilities and capital programs. Bonded indebtedness has also been entered into in 2012 to refund four of the City's LTGO bonds. General obligation bonds have been issued in the past for both general government and business- type activities and are being repaid from the applicable resources. Governmental Activities long-term debt is paid from property and sales tax revenues. The revenue bonds are being repaid by the revenues generated by the related utility. The City of Edmonds is also liable for eight Public Works Trust Fund Loans; three are general obligation loans and five businesses-type loans. The notes are considered obligations of both the general government and the Utility and are being repaid from the applicable resources. The City is in compliance with all Washington State debt limitation statutes and bond indenture agreements.

General obligation bonds currently outstanding are as follows:

Issue Name	Maturity Date	Interest Rates	Original Amount	Principal Installments	Balance 12/31/12
Governmental Debt:					
General Obligation Bonds:					
2003 UTGO Ref. Bonds - Public Safety Buildings	12/01/2016	2.00-3.50%	$ 7,000,000	$70,000 - $960,000	$ 3,520,000
2007 LTGO Bonds - Capital Improvements	3/15/2026	3.65-3.95%	1,384,904	$130,000-$370,000	1,080,384
2012 LTGO Refunding Bonds	12/1/2031	1.75-3.00%	9,004,043	$80,000 - $880,000	9,004,043
Total Governmental GO Bonds			17,388,947		13,604,427
Business-type Debt:					
General Obligation Bonds:					
2007 LTGO Bonds - Capital Improvements	3/15/2026	3.65-3.95%	3,845,096	$130,000-$370,000	2,999,616
2012 LTGO Refunding Bonds	12/1/2031	1.75-3.00%	320,957	$80,000 - $880,000	320,957
Total Business- type GO Bonds			4,166,053		3,320,573
Total General Obligation Bonds			$ 21,555,000		$ 16,925,000

Revenue bonds currently outstanding are as follows:

Issue Name	Maturity Date	Interest Rates	Original Amount	Principal Installments	Balance 12/31/12
Business- type Debt:					
Revenue Bonds					
2011 Water/Sewer Bonds	12/1/2031	3.65-3.95%	13,720,000	$470,000 - $945,000	13,250,000
Total Revenue Bonds			$ 13,720,000		$ 13,250,000

Public Works Trust Fund Loans currently outstanding are as follows:

Issue Name	Maturity Date	Interest Rates	Original Amount	Principal Installments	Balance 12/31/12
Governmental Debt:					
Public Works Trust Fund Loans:					
PW Trust Fund Loan - Street Construction	6/30/2022	0.50%	$ 340,000	$13,421 - $18,143	$ 181,433
PW Trust Fund Loan - Street Construction	6/30/2024	0.50%	400,000	$20,000 - $21,176	254,118
PW Trust Fund Loan - Street Construction	5/24/2026	0.50%	624,750	$32,882	460,342
Total Governmental Debt Public Works Trust Fund Loans			1,364,750		895,893
Business-type Debt:					
Public Works Trust Fund Loans:					
PW Trust Fund Loan - Trt. Plant/Sewer Improv.	6/30/2022	0.50%	1,347,250	$67,363 - $71,325	713,250
PW Trust Fund Loan - Water Improvements	6/30/2024	0.50%	408,000	$4,295 - $25,839	310,067
PW Trust Fund Loan - Storm Improvements	6/30/2024	0.50%	605,625	$30,281 - $32,063	384,750
PW Trust Fund Loan - Sewer Improvements	6/30/2025	0.50%	1,216,902	$12,809 - $67,615	939,838
PW Trust Fund Loan - 09 Water Improvements	7/1/2015	0%	100,000	$18,000 - $20,000	60,000
Total Business- type Debt Public Works Trust Fund Loans			3,677,777		2,407,905
Total Public Works Trust Fund Loans			$5,042,527		$3,303,798

Capital Contracts currently outstanding are as follows:

Issue Name	Maturity Date	Interest Rates	Original Amount	Principal Installments	Balance 12/31/12
Governmental Debt:					
Capital Contracts					
1996 Note - Fire Station #10	01/01/2015	1.00%	$ 1,136,115	$54,592 - $65,300	$ 193,964
2005 Contract - Public Safety Radio Equipment	12/01/2019	3.00-5.00%	1,595,046	$77,457 - $141,288	869,960
Total Capital Contracts			$ 2,731,161		$ 1,063,924

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
Item	Without Vote (Councilmanic) 1.5%	With Vote 2.5%	With Vote 2.5%	With Vote 2.5%
Legal Limits	$ 83,178,598	$ 55,452,398	$ 138,630,996	$ 138,630,996
Net outstanding indebtedness	(18,734,331)	(3,520,000)	-	-
Margin Available	$ 64,444,267	$ 51,932,398	$ 138,630,996	$ 138,630,996

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.

In 2012, the City issued $9,325,000 in LTGO bonds with annual interest rates ranging from 1.75% to 3.00% to refund the following debt issuances: $790,000 of outstanding 1998 LTGO bonds with annual interest rates ranging from 4.00% to 4.40%, $1,615,000 of outstanding 2001A LTGO bonds with annual interest rates ranging from 3.00% to 4.90%, $1,270,000 of outstanding 2001B LTGO bonds with annual interest rates of 2.65% to 5.45%, and $5,650,000 of outstanding 2002 LTGO bonds with annual interest rates ranging from 3.00% to 4.90%. The net proceeds of $9,819,940 were also deposited in an irrevocable trust with U.S. Bank National Association. There was a net present value savings in the amount of $1,912,892 for an economic gain.

Debt Service to Maturity

The requirements to amortize the long-term debt as of December 31, 2012 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 refunded 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.

	GOVERNMENTAL ACTIVITIES			BUSINESS TYPE ACTIVITIES		
Year	Principal	Interest	Total	Principal	Interest	Total
2013	$ 1,928,748	$ 388,768	$ 2,317,516	$ 956,569	$ 598,794	$ 1,555,363
2014	2,022,067	338,906	2,360,974	974,627	580,457	1,555,083
2015	1,741,977	285,936	2,027,913	970,381	556,286	1,526,667
2016	1,760,065	235,542	1,995,607	972,733	531,930	1,504,662
2017	836,306	182,187	1,018,493	997,230	506,854	1,504,084
2018-2022	4,096,806	607,060	4,703,865	5,388,647	2,088,511	7,477,159
2023-2027	2,868,275	184,852	3,053,127	5,153,293	1,218,756	6,372,048
2028-2032	310,000	17,663	327,663	3,565,000	363,400	3,928,400
	$ 15,564,244	$ 2,240,913	$ 17,805,157	$ 18,978,478	$ 6,444,988	$ 25,423,467

At December 31, 2012 the City had $984,163 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, 2012, the City of Edmonds had no arbitrage liability.

Revenue Bond Debt Service Coverage

The required debt service coverage for the 2011 utility revenue bonds is 1.25. Please refer to Schedule 16 in the statistical section.

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

NOTE 13 – CHANGES IN LONG-TERM LIABILITIES

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

	Beginning Balance 1/1/2012	Additions	Reductions	Ending Balance 12/31/2012	Due Within One Year
Governmental activities					
Bonds payable:					
General obligation bonds	$ 15,520,201	$ 9,004,043	$ (10,919,817)	$ 13,604,427	$ 1,684,953
Total bonds payable:	15,520,201	9,004,043	(10,919,817)	13,604,427	1,684,953
Net Pension Obligation	220,065		(11,314)	208,751	-
OPEB payable	437,472	8,484		445,956	-
Compensated absences	2,794,680	1,827,946	(1,975,346)	2,647,280	2,014,853
Capital contracts	1,229,863	-	(165,939)	1,063,924	171,594
Public Works Trust Loan	968,095	-	(72,202)	895,893	72,201
Governmental activity long-term liabilities	$ 21,170,376	$ 10,840,473	$ (13,144,618)	$ 18,866,231	$ 3,943,601

	Beginning Balance 1/1/2012	Additions	Reductions	Ending Balance 12/31/2012	Due Within One Year
Business-type activities					
Bonds Payable:					
General obligation bonds	$ 3,554,800	$ 320,957	$ (555,184)	$ 3,320,573	$ 220,047
Revenue bonds	13,720,000	-	(470,000)	13,250,000	515,000
Less deferred amounts:					
For issuance premiums	419,715	-	(20,986)	398,729	20,986
For issuance discount	(13,165)	16,415	(1,484)	1,766	1,181
On refunding	(254,127)	-	72,000	(182,127)	(72,000)
Total bonds payable:	17,427,223	337,372	(975,654)	16,788,941	685,214
Compensated absences	416,194	364,217	(377,162)	403,249	384,705
Public Works Trust Loan	2,563,901	60,845	(216,841)	2,407,905	221,522
Business-type activity long-term liabilities	$ 20,407,318	$ 762,434	$ (1,569,657)	$ 19,600,095	$ 1,291,441

Internal service funds predominately serve the governmental funds. Accordingly, the December 31, 2012 long-term liabilities for the fund are included as part of the above totals for governmental activities. At year end $22,389 of internal service funds compensated absences are included in the above amounts.

NOTE 14 – 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 $800,000 to $1,150,000 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 15 – RISK MANAGEMENT

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

Utilizing Chapter 48.62 RCW (self-insurance regulation) and Chapter 39.34 RCW (Inter-local 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 153 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 $750,000, for all perils other than flood and earthquake, and insured above that amount by the purchase of insurance.

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

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

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

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

Workers' Compensation

Title 51 RCW requires the City to ensure payment of benefits for job-related injuries and diseases through the Workers' Compensation fund or through self-insurance. The City participates in the State of Washington's Workers' Compensation program. Premiums are based on individual employer's reported payroll hours and insurance rates based on each employer's risk classification and past experience. The premium is paid by employer and employee contributions.

NOTE 16 – JOINT VENTURE

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

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

The Snohomish County Emergency Radio System was created by agreement under the Interlocal Cooperation Act (RCW 39.34) between The City of Edmonds, Snohomish County and various other cities and political districts. The purpose of the venture is to equip and operate a radio system primarily for the use of public safety agencies. The City of Edmonds has an 8% interest in the equity and operations of the venture. The City's share of the assets and fund equity as of December 31, 2012 was $494,337. 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 17 – COMMITMENTS

The City has several capital improvement projects in progress. As of December 31, 2012, the City's outstanding contractual obligations, which include construction and engineering contracts, are summarized below:

Contract Name	Original Amount	Expenditures to Date	Remaining Commitment
2011 Waterline Replacement Program	$ 394,038	$ 340,017	$ 54,021
2011 Waterline Replacement Program (Dayton St.)	39,694	28,712	10,982
2012 Sanitary Sewer Comp Plan Update	188,083	94,891	93,192
2012 Waterline Replacement Program	46,750	27,247	19,503
2013 Citywide Drainage Replacement	9,530	9,530	-
2013 Sewer Line Replacement Program	27,262	23,807	3,455
2013 Waterline Replacement Program	23,264	23,064	200
226th St SW Walway Project	18,631	18,474	157
228th Street SW Corridor Improvement Project	411,517	284,745	126,772
76th Ave W & 212th St. SW Intersection	300,700	146,027	154,673
76th Ave W 75th Pl W Walkway and 16nd Park	161,000	52,485	108,515
9th Ave Project & 228th Street SW Corridor	5,580	4,708	873
A Basin Upgrade	174,531	159,077	15,454
Building Roof Replacement	344,925	324,700	20,636
Dayton St/SR 104 Drainage Alternative Study	192,210	98,846	93,364
Edmonds Marsh Feasibility Study	21,995	11,603	10,392
Fibre Optic (construction and design)	92,890	89,780	3,110
Five Corners Roundabout	396,613	304,033	92,580
Interurban Trail	1,644,251	1,561,079	83,172
Lift Station 2 Rehab	487,525	467,348	20,178
Main Street Decorative Lighting & Sidewalk	1,475,726	1,338,423	137,304
N. Talbot Road Drainage Improvements	20,000	17,182	2,818
Perrinville Creek Culvert Replacement	20,251	8,496	11,755
Public Works Facilities Water Quality Upgrades	80,031	21,908	58,123
Sewer Lift Stations Rehabilitation	4,728,640	637,857	4,090,783
SR99 International District Enhancements	333,260	177,103	156,158
Stormwater Development Review Support	10,000	6,466	3,534
Sunset Walkway Project (Grant Writing)	16,784	16,779	5
Sunset Walway Project	9,885	9,882	3
SW Edmonds Basin #3 (238th to Hickman Infiltration)	85,684	84,309	1,375
Switchgear Upgrade - design only	111,658	75,450	36,208
Talbot Road/Perrinville Creek Drainage Improvements	61,962	58,335	3,627
Transportation Plan Update	12,400	10,472	1,928
Water, Sewer, Stormwater Revenue Req Update	12,450	9,710	2,740
	$ 11,959,720	$ 6,542,545	$ 5,417,590

NOTE 18 – PRIOR PERIOD CORRECTIONS

Governmental Activities		
General Government		
Move PFD Receivable from A/R to Contingent Loan Balance	$	(221,703)
	$	(221,703)
Business-Type Activities		
Correction of Grant amount accrued in error in 2010	$	(44,037)
Correction of revenues that were over-estimated in a prior year		(360,939)
Correction of Retainage that was not decreased in error		2,780
	$	(402,196)

NOTE 19 – TERMINATION BENEFITS

In 2012, in an effort to accommodate budgetary constraints, the City implemented a Voluntary Separation Incentive Program (VSIP). The purpose of this program was to reduce the City's overall salary costs by reducing FTE levels, while minimizing impacts to employees to voluntarily separate from employment, either through retirement or resignation.

There were four tiers of incentive options dependent on years of service:

- 0-5 Years of Service
    1. Three months salary, OR
    2. Two months salary plus 50% COBRA health benefits for nine months, OR
    3. Two months salary plus 75% COBRA health benefits for six months.
- 6-10 Years of Service
    1. Four months salary, OR
    2. Three months salary plus 50% COBRA health benefits for nine months, OR
    3. Three months salary plus 75% COBRA health benefits for six months.
- 11-15 Years of Service
    1. Five months salary, OR
    2. Four months salary plus 50% COBRA health benefits for nine months, OR
    3. Four months salary plus 75% COBRA health benefits for six months.
- >15 Years of Service
    1. Six months salary, OR
    2. Five months salary plus 50% COBRA health benefits for nine months, OR
    3. Five months salary plus 75% COBRA health benefits for six months

Five employees total participated in the program, with two receiving payouts in 2012, and three in 2013; all chose the salary only options. This program is a one-time offer, with a one-time payout distribution. The total cost in 2012 of this incentive was $62,589 and $101,164 in 2013.

NOTE 20 – SUBSEQUENT EVENT

On August 6th, 2013, the City sold $15,010,000 Water and Sewer Revenue Bonds through a competitive bond sale. Net proceeds of the sales will be used to finance water, sewer, and stormwater capital projects.

The City had applied to Moody's Investors Service and the outstanding rating of the City's Water and Sewer Bonds of "Aa3" was affirmed. The rating reflects positively on the City, City management and staff and the sound financial position of the Water & Sewer Utility. The Bonds were structured as 25 year bonds with a final maturity in 2038. The Bond debt service was "wrapped" around the City's outstanding Water & Sewer debt service, resulting in approximately level overall debt service payments.

FIREMEN'S PENSION TRUST FUND

SCHEDULE OF FUNDING PROGRESS
(rounded to thousands)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liabilities	Unfunded Acturial Accrued Liabilities (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
January 1, 2012	$ 217	$ 755	$ 538	29%	N/A	N/A
January 1, 2010	267	774	507	34%	N/A	N/A
January 1, 2008	297	871	574	34%	N/A	N/A
January 1, 2006	301	704	403	43%	N/A	N/A
January 1, 2004	397	702	305	57%	N/A	N/A

SCHEDULE OF EMPLOYER CONTRIBUTIONS

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

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

SCHEDULE OF FUNDING PROGRESS
(rounded to thousands)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liabilities	Unfunded Acturial Accrued Liabilities (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
January 1, 2012	$ -	$ 9,576	$ 9,576	0%	N/A	N/A
January 1, 2010	-	9,607	9,607	0%	N/A	N/A
January 1, 2008	-	9,887	9,887	0%	N/A	N/A
January 1, 2006	-	8,635	8,635	0%	N/A	N/A

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Fiscal Year Ending 12/31	Total Employer Contributions***	Annual Required Contribution	Percentage of ARC Contributed**
2012	$ 583,173	$ 601,084	97%
2011	539,097	601,084	90%
2010	523,170	593,330	88%
2009	479,076	593,330	81%
2008	444,701	561,707	79%
2007	469,004	561,707	83%

NOTES TO REQUIRED SUPPLEMENTAL INFORMATION

FIREMEN'S PENSION TRUST FUND

Actuarial Valuations	
Actuarial valuation date	January 1, 2012
Actuarial cost method	Entry age normal
Amortization method	30 year, closed as of January 1, 2000
Remaining amortization period	17 years
Asset valuation method	Fair market value

Assumptions	
Investment rate of return	4.00%
Projected salary increases	3.50%
Price inflation	2.50%
	Based upon salary increase assumptions when appropriate for Trust benefits. *
	Based upon inflation assumption for some Trust benefits and all LEOFF benefits.

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

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

Actuarial Valuations	
Actuarial valuation date	January 1, 2012
Actuarial cost method	Entry age normal
Amortization method	30 year, closed as of January 1, 2007
Remaining amortization period	24 years
Asset valuation method	Fair market value

Assumptions	
Investment rate of return	4.00%
Medical inflation rate	7.25%, downgrading to 5.00% over nine years
Long-term care inflation	5.00%