



Dumas Bay Centre

# City of Federal Way,

Washington

2011

## COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR YEAR ENDED DECEMBER 31, 2011

Prepared by:  
The Finance Department

## *~City of Federal Way History~*

The earliest recorded accounts of the Federal Way area tell of Native American families who resided in the area of the Muckleshoot Reservation on the east side of the Green River Valley and traveled west to the shores of Puget Sound for the plentiful fisheries resources. Generations of Muckleshoot Indians wore a westward trail across the heavily forested plateau to the area which is now Saltwater State Park. The arrival of the white man in the nineteenth century resulted in a steady decline in the Indian population and by 1890, nearly the entire population had disappeared from the area. Isolated on a triangular shaped plateau rising steeply from Puget Sound, the Federal Way area had little waterfront access or roadways and accordingly, was sparingly developed compared to Tacoma and Seattle. As late as the turn of the century, the original settlers at Dash Point and Dumas Bay had to row to Tacoma for supplies and mail. Old Military Road, constructed around 1856 and extending north from Fort Steilacoom, past Star Lake to Seattle and Fort Lawton, was the first road through the area.

Over time, narrow dirt roads were added to provide east/west access and by 1900, a road was constructed between Star Lake and Redondo. The second crossroad, the "Seattle Road," connected old Military Road and Kent. The Seattle-Tacoma Interurban Line, completed in 1901, provided a fast and easy way to reach these urban cities. Improved access brought many visitors to the area and Star Lake became a popular summer recreation site.

By the 1920s, Federal Highway 99, the interstate that linked the western states from north to south, was complete. At this time, Federal Way was still primarily forest and farmland. Fred Hoyt had a cabin on Dumas Bay and started a road to Tacoma (still called Hoyt Road). The timber companies, which had a major logging operation going, built an early railroad line and were instrumental in getting Marine View Highway (now Dash Point Road) built in the early 1920s. This roadway spurred development along the coastline. Soon thereafter, Peasley Canyon Road was built to connect Military Road with the Auburn Valley. This road later became known as South 320th Street. In these early days, roadways set the stage for development in the area and they still play an important role in the City today.

By the start of World War II, a number of small, thriving communities made up the area that is now Federal Way. Some communities were clustered around lakes, such as Steel Lake, Star Lake, and Lake Geneva. Others were sited to take advantage of the view of Puget Sound, like Adelaide and Buenna. As each of these communities grew, residents built small schoolhouses for their children. By the late 1940s, King County consolidated the many individual red schoolhouses into the Federal Way School District, from which the City gets its name. During this same period, a library was built along the edge of Highway 99, and between 308<sup>th</sup> Street and 320th Street, a small "downtown" developed with a general store, lumber yard, realty office, beauty parlor, feed store, and gas station. By the end of the 1950s, the ten blocks between 308th and 320th Streets became the first roadside commercial district. One of the more unique developments was Santa Faire, a family oriented theme park. New shopping areas were added around the park, helping to create a "community focus" for the residents of the area.

As this commercial area developed, the rest of Federal Way was changing as well. The Boeing Company expanded their operations in Renton and the Kent Valley and began advertising nationally for engineers. Those engineers in turn began roaming the wooded acreage in Federal Way in search of housing. One of the earliest residential developments was Marine Hills, built in 1958 overlooking Puget Sound. Weyerhaeuser, one of the early timber companies, had large land holdings in the area and began to develop their land into high quality housing with amenities like golf courses.

Weyerhaeuser's development company also began developing commercial property, creating the West Campus business park. The plan was to integrate offices and businesses with lush landscaping. Though initially the corporate office market was not strong, West Campus has grown almost to capacity, providing space for many civic buildings such as City Hall, the police station, the area's major health care centers, and higher density housing.

Another major landmark in the area is SeaTac Mall (now The Commons), built in the mid-1970s on what was farmland south of 320th Street. The Mall is one of the largest in South King County and is the anchor for retail development in the area. The Mall was a result of population growth in the region and its location was determined by the 320th Street intersection with Interstate 5. The Interstate supplanted Highway 99 as the main artery for commuter traffic in the County.

By the mid 1980s, South King County was growing quickly. Retail growth occurred along Highway 99, especially at the 320th Street intersection. Roads and office space were developed to accommodate the increased growth. Residential growth was also prominent, following plans developed by King County, with a large number of apartment homes. The changes to the community, with increased housing and traffic, created a movement for greater self-determination. In 1989, the citizens of this area voted for incorporation and the City of Federal Way was born, incorporating on February 28, 1990.

**COMPREHENSIVE ANNUAL FINANCIAL REPORT  
For the Year Ended December 31, 2011**

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May 25, 2012

People of the City of Federal Way  
Honorable Mayor and City Council

**THE COMPREHENSIVE ANNUAL FINANCIAL REPORT  
OF THE  
CITY OF FEDERAL WAY**

The Comprehensive Annual Financial Report (CAFR) of the City of Federal Way for the year ended December 31, 2011 is hereby submitted. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rests with the City. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner designed to present fairly the financial position and results of operations of the various funds of the City. All disclosures necessary to enable the reader to gain an understanding of the City's financial activities have been included.

This transmittal letter is designed to compliment the MD&A and should be read in conjunction with it. The City's MD&A can be found immediately following the Independent Auditor's Report.

**REPORTING ENTITY**

The City is a noncharter Optional Code City with a Mayor-Council form of government. It was incorporated on February 28, 1990, and is governed under the provisions of the Optional Municipal Code of the Revised Code of Washington. Optional Code City status increases the City's operating authority by extending it to the powers of all four city classifications which exist in Washington Law.

The City Council consists of seven council members, all of whom are elected at large by citizens of Federal Way to serve four-year terms. In November 2009, the citizens of Federal Way approved Proposition 1 to change the form of government from a City Manager-Council run government to an elected Mayor-Council government. Federal Way voters elected former state representative Skip Priest as mayor on November 2, 2010.

City services provided include: police protection, construction and maintenance of streets, building inspection, municipal court services, jail services, planning and zoning, park services, emergency management services, surface water management and general administration, including finance. Services for a land use hearing examiner are contracted. The City continues to have ten major departments consisting of the City Council, Mayor's Office; Law; Finance; Human Resources; Information Technology; Municipal Court, Parks & Public Works; Police; and Community Development. Fire protection and emergency medical services are provided by South King Fire & Rescue. Lakehaven Utility District delivers water and sewer services. Metro provides public transportation services. Public housing services are the primary focus of the King County Housing Authority. The King County Library System engages City residents through its library and reference services. School District No. 210 offers educational programs for kindergarten through high school students, in addition to vocational training.

## **ECONOMIC FACTORS AFFECTING FINANCIAL CONDITION**

The Great Recession is remarkably similar to the Great Depression, although not as severe. The bursting of the housing bubble followed by a freeze in the credit markets, falling home prices, and 50% dip in the stock market and rising unemployment has made it difficult for the economy to quickly recover. Consumer spending slowed, housing construction came to an abrupt halt, and state and local governments began to experience shortfalls in tax revenue.

During 2011, matters got worse with bad winter weather, cut in defense spending, increase in gasoline prices and the Japan earthquake combined with less government spending slowed the economy down to a crawl. In addition, due to a deadlock in Congress over raising the debt ceiling took the United States to the brink of default and led Standard & Poor's to downgrade the national long-term credit rating from the highest rating of AAA to AA+ - the first ever downgrade in history. Stock prices plunged, while consumer confidence plummeted back to its recession low.

However, the economic conditions started to shift towards the end of 2011. Nationally, the U.S. Bureau of Economic Analysis (BEA) indicates Gross Domestic Product (GDP) advanced at a better-than-expected 2.4% rate in the third quarter of 2011 mainly in part by stronger consumer spending. In addition, home prices have slowly begun to stabilize.

Unemployment in the Puget Sound region has been hit harder during this recession compared to the last recession. Unemployment remains at approximately 8% down from the peak of 9%. During the 2001 recession, it took six years to return to the same number of jobs that had existed before the recession began. The Puget Sound region was most affected by the 2001 recession which was a combined effort of the "dot.com" collapse and the 9/11 terror attacks on commercial airplane industry both of which are prominent for the Pacific Northwest. Projections indicate that the Puget Sound jobs will not return to their prerecession level until the fourth quarter of 2014.

A key difference between the Great Recession of 2007 and the previous recessions is the sharp decline in the housing market. Housing development and prices grew steadily through the 2000s, fed by low interest rates and the widespread availability of mortgages to marginally-qualified buyers. Homes in King County tripled its value between 1994 and 2006. However, 2011 proved to be the best year for home sales in King County since 2007. Prices however have decreased approximately 33% compared to 2007. Statistics indicates that many of these sales are for foreclosed homes. In King County, the number of bank-repossessed homes sold in 2011 was up 73% from 2010. These homes are selling for significantly less than other homes which in turns erodes home values causing more homeowners owing more on their homes than it's worth.

## **ECONOMIC TRENDS**

Federal Way is the eleventh largest city, in Washington State with a population of 89,370 as of April 1, 2011. The City is located on a plateau adjacent to Puget Sound in King County, eight miles north of downtown Tacoma and 25 miles south of downtown Seattle. The City occupies approximately 22.5 square miles and is served by Interstate 5 and state highways 99 and 509.

In 2011 there were 35,464 housing units in Federal Way, an increase of approximately less than 1% over 2010. Of these units, 56% were single family homes, 40% multi-family units, and 4% mobile homes and trailers.

The community is residential and commercial, with the populace employed locally and in the neighboring cities such as SeaTac, Kent, Tacoma, Bellevue, and Seattle. Employment in Federal Way is highly concentrated in retail and services sectors which respond primarily to the needs of the local market area population. The employment figure for 2010 is estimated at 28,939. Major employers are; Federal Way Public Schools, Weyerhaeuser, Lifebridge Incorporated, St. Francis Community Hospital, World Vision, and Wild Waves Theme Park.

Sales tax collected in 2011 total \$10.9 million, and is above 2010 by \$149 thousand. The retail sector of the local economy is anchored by two areas; the first is South 348<sup>th</sup> and Pacific Highway 99 including Wal-Mart Super Center, Wholesale Sports, Costco, Lowe's Home Improvement Center, and Home Depot. The second is The Commons regional mall including Target, TJ Max, Best Buy, and many other small businesses adjacent to the area. According to a listing of businesses registered with the City of Federal Way and sorted by the Standard Industrial Classification, the business economy appears to be configured as follows: retail trade 51%; services 22%; construction 11%; wholesale trade 4%; information 5%, manufacturing 1%, and other 6%.

In 2011, new improvements to real estate totaled \$39.3 million or approximately 0.1% of the City's 2011 assessed valuation. The total assessed value of taxable property in Federal Way was \$7.7 billion, which is approximately 6.6% lower than the 2010 assessed valuation of \$8.3 billion. Real Estate sales increased 32% to approximately \$314 million in 2011 as compared to \$238 million in 2010. A total of 482 building permits and 2,385 other building related permits were issued in 2011. Estimated valuation was \$33.0 million and \$6.2 million respectively. Significant building permits include: Federal Way Public Schools Service Center Facilities and New Kitchen Building, DOW Jones addition, Rockwell Collins Addition, Safeway Fuel New Convenience Store, Fuel Canopy and Vending Kiosk, Wild Waves Zooma Falls Conveyer addition, Wild Waves Tantrum Ride addition, Bigfoot Java New Building, and Mirror Lake Elementary New Portable.

## **LONG-TERM PLANNING**

The City's fiscal policy requires the City to prepare long-range projections for six years beyond the current budget period. The projection extends current operations to the future to see if the services are sustainable and the magnitude of, if any, future financing gaps. This glimpse into the future allows the City to proactively plan and implement corrective measures over time to avoid sudden drastic changes in service levels or in revenue/tax policies. In addition, the City's fiscal policy requires the City to balance its ongoing services with ongoing revenues.

## **MAJOR INITIATIVES AND ACCOMPLISHMENTS**

In October 2011, Federal Way City Council voted to move forward with a purchase/sale agreement with ARCAAD Inc. to build an ambitious Crystal Palace design on the former AMC Theatres site in downtown Federal Way. The Crystal Palace design would include approximately 500 residential units, 12,000 square feet of office and retail space, 50,000 square of creation/cinema/restaurant/entertaining space and 75,000 square feet of the "crystal palace" space. Earlier in the year, Federal Way City Council had dissolved a contract with Twin Development to build a high-rise mixed use project.

In addition to the Crystal Palace design, the City has made steps towards the proposed Performing Arts and Civic Center project for downtown Federal Way. This project will be built on the former Toys "R" Us property located at 31510 20<sup>th</sup> Avenue South. The components of the center have not been established but a performance hall, conference center and a hotel are part of the planning phase of the center. In mid-2011, Federal Way City Council selected LMN Architects of Seattle to design the first step to revitalizing downtown Federal Way.

The City has also taken steps not only to revamp the downtown core, but also within the City's neighborhoods. The increase in foreclosed homes have provided a dumping ground for junk, furniture, and appliances in these vacant or abandoned homes. The City set to amend its "unfit building" code to include unfit premises. "Unfit premises" would include accumulation of junk, garbage and trash, unsecured abandoned vehicles and trucks, and/or other equipment on the property deemed to be inoperable, sinkholes, exposed wires or trenches, dilapidated sheds, carports of fences, and noxious weeds or plants. This change would save the city time and money. Funding for the expanded sphere of enforcement will come from abatement funding. In addition, funding can also come from tax liens against property owners if needed.

Despite reductions in Police staffing, Federal Way Police Department reports improved levels of service that led to some of the lowest crime rates in the city's history. Index crimes, which include homicide, rape robbery, burglary, aggravated assault, larceny, motor vehicle theft and arson, decreased in the third quarter of 2011 by 12% compared to 2010. 3,427 index crimes were recorded in 2011 and is the lowest crime rate since the inception of the Police Department. A contributing factor to the decrease in the crime rate is the creation of the Special Operations Unit back in 2009. This unit is a group of officers that focus on the transit center, city parks and the downtown core. The unit was able to reduce crime in downtown reporting district by 50 percent in 2011.

## **OUTLOOK FOR THE FUTURE**

Council identified the following set of goals for the City which was adopted on March 7, 2006.

1. Integrate the public safety strategy in all facets of City operations, building on a strong community-based approach.
2. Create a multi-use urban city center that is pedestrian friendly, linked to neighborhoods and parks, and services as the social and economic hub of the City.
3. Establish Federal Way as an economic leader and job center in South King County by attracting regional market for high quality office and retail businesses.
4. Maintain the capital facilities plan and provide financing options for transportation and surface water improvements, parks, recreation, and cultural arts and public facilities.
5. Ensure a responsive service culture within the City organization where employees listen carefully, treat citizens and each other respectfully and solve programs creatively, efficiently, and proactively.
6. Position Federal Way as a regional leader by working collaboratively with other local and regional jurisdictions in order to leverage resources.

## **FINANCIAL INFORMATION**

The City of Federal Way is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City are protected from loss, theft, or misuse and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: 1) the cost of a control should not exceed the benefits likely to be derived, and 2) the evaluation of relative costs and benefits of the control system requires estimates and judgments by management.

### **Budgetary Control**

The City maintains budgetary controls in accordance with the Revised Code of Washington (RCW 35A.33). The objectives of these budgetary controls are to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the City Council. Activities of the General Fund, some Special Revenue Funds, and Debt Service Fund are included in the annual appropriated budget. The level of budgetary control at which expenditures cannot legally exceed the appropriated amount is established at the individual fund level. The project-length based Special Revenue Funds, and the Capital Projects, Enterprise and Internal Service funds are management budgets only and therefore these budgets are not represented in the CAFR. The City also maintains an encumbrance accounting system as one technique of accomplishing budgetary control. All appropriations lapse at year-end.

### **Basis of Accounting**

All governmental funds are accounted for using the modified accrual basis of accounting. Under the modified accrual basis, revenues are recorded when received in cash, except for revenues susceptible to accrual. Revenues considered susceptible to accrual are those that are measurable and available to finance the government operation during the current period. Expenditures, other than accrued interest on general long-term debt, are recorded at the time liabilities are incurred.

All proprietary funds use the accrual basis of accounting. Under the accrual basis, revenues are recorded when they are earned and expenses are recorded as soon as they result in liabilities for benefits received.

### **Independent Audit**

State law requires an annual audit of all City books of account, financial records, and transactions by the State Auditor, an independently elected state official. In addition to meeting the requirements set forth under state law, the audit was also designed to meet the requirements of the federal Single Audit Act of 1984 and related OMB Circular A-133. The

2011 audit of the City has been completed in conformance with generally accepted auditing standards. The financial statements of all City funds have been included in this audit. The City has been given an unqualified opinion for 2011; which is the 18<sup>th</sup> consecutive year receiving a clean audit. The State Auditor's report on the basic financial statements is included in the financial section of this report.

#### **AWARDS**

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Federal Way for its comprehensive annual financial report (CAFR) for the year ended December 31, 2010. The City of Federal Way has received a Certificate of Achievement for the last twenty-one years (fiscal years ended 1990 – 2010). In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

The City of Federal Way also received the Government Finance Officers Association Distinguished Budget Presentation Award for its biennial budget for the years beginning January 1, 2011 and 2012. In order to receive this award, a governmental unit must publish a budget document that meets program criteria as a policy document, a financial plan, an operations guide, and a communications medium.

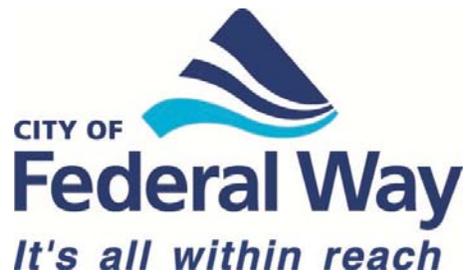
#### **ACKNOWLEDGEMENTS**

The preparation of this report would not have been possible without the efficient and dedicated services of the entire staff of the finance division, in particular Phung Huynh (Financial Analyst II), Chase Donnelly (Financial Analyst I) and Heidi Horton (Accounting Supervisor). In addition, staff in all City departments should be recognized for responding so positively to the requests for detailed information which accompany each audit. The role of the State Auditor's Office should also be acknowledged as a significant contribution to a fine product. Finally, we wish to express our appreciation to the Mayor and City Council for their ongoing support and for providing the firm foundation for the pursuit of excellence in all realms of professional endeavors.

Respectfully submitted,



Tho Kraus  
Finance Director



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### CITY OFFICIALS



SKIP PRIEST  
Mayor



JIM FERREL  
Councilmember



LINDA KOCHMAR  
Councilmember



MIKE PARK  
Councilmember



JEANNE BURBIDGE  
Councilmember



JACK DOVEY  
Councilmember



ROGER FREEMAN  
Councilmember

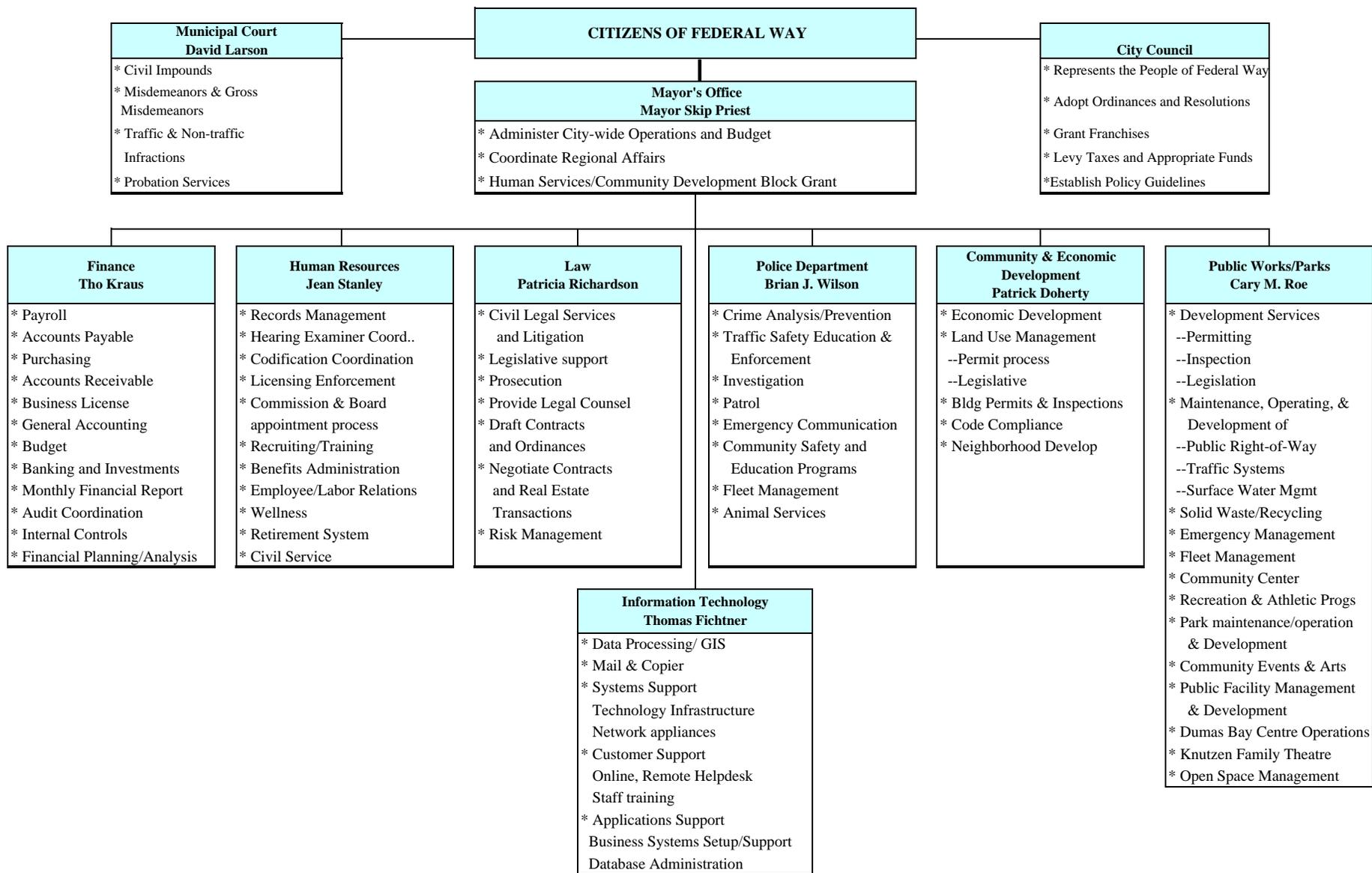


DINI DUCLOS  
Councilmember

### OTHER ADMINISTRATIVE OFFICERS

City Attorney.....	Patricia Richardson
City Clerk.....	Carol McNeilly
Community and Economic Development Director.....	Patrick Doherty
Finance Director.....	Tho Kraus
Administrative Services Director.....	Bryant Enge
Parks and Public Works Director.....	Cary M. Roe
Police Chief.....	Brian J. Wilson

**CITY OF FEDERAL WAY ORGANIZATION CHART AND OPERATION SUMMARY**



# Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Federal Way  
Washington

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
December 31, 2010

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

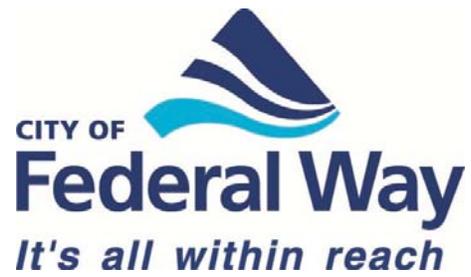


*Linda C. Danison*

President

*Jeffrey R. Emer*

Executive Director



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## Washington State Auditor Brian Sonntag

### INDEPENDENT AUDITOR'S REPORT

May 25, 2012

Mayor and City Council  
City of Federal Way  
Federal Way, Washington

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Federal Way, King County, Washington, as of and for the year ended December 31, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Federal Way, King County, Washington, as of December 31, 2011, and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparison for the General, Street and Utility Tax funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, during the year ended December 31, 2011, the City has implemented the Governmental Accounting Standards Board Statement No. 54 – Fund Balance Reporting and Governmental Fund Type Definitions.

In accordance with *Government Auditing Standards*, we will also issue our report dated May 25, 2012, 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. That report will be issued under separate cover in the City's Single Audit Report. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 7 through 16, to 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 the 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.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying information listed as combining financial statements and supplementary information on pages 65 through 119 is presented for purposes of additional analysis and 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 financial statements. This information has been subjected to 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 financial statements or to the 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.

The information identified in the table of contents as the Introductory and Statistical Sections is presented for purposes of additional analysis and is not a required part of the basic financial statements of the City. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Sincerely,

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

**BRIAN SONNTAG, CGFM**  
STATE AUDITOR

## MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the City of Federal Way's annual financial report provides a narrative overview of the City's financial activities for the fiscal year ended December 31, 2011. This information should be read in conjunction with the preceding letter of transmittal, the financial statements and notes to the financial statements that follow.

### FINANCIAL HIGHLIGHTS

- The total assets of the City of Federal Way exceeded its liabilities at December 31, 2011 by \$588.1 million. Capital Assets (net of depreciation and related debt) account for 88% of this amount with a value of \$520.1 million. Of the remaining net assets of \$68 million or 12%, \$44 million may be used to meet the government's ongoing obligations to citizens and creditors, without legal restriction.
- The City's total net assets increased by \$4.8 million, or 1% compared to 2010. Governmental activities increased by \$4.9 million while business-type activities decreased by \$117 thousand.
- Invested in capital assets, net of related debt and unrestricted net assets for governmental activities increased by \$4.4 million and decreased by \$6 million respectively compared to 2010.
- Restricted Net Assets increased by \$6.5 million or 37% is mainly for funding of capital projects.
- Governmental fund balances at year-end were \$43.6 million, \$1.3 million or 3% decreased over the prior year. Of this amount, a total of \$12.4 million, or 28% of the governmental fund balance is unrestricted and available to fund ongoing activities. The remaining \$31.2 million is earmarked for debt service, paths & trails reserve, hotel/motel lodging tax, police special funds, petty cash/change funds, court trust fund, advance travel, and capital projects.
- Unrestricted fund balance in the general fund was \$12.4 million, which increased by \$4.2 million or 51% from the prior year.
- The City debt decreased by \$780 thousand during the current fiscal year. General obligation debt decreased by \$597 thousand while public works trust fund loan decreased by \$182 thousand. The decreases reflect the annual debt service payments and compensated absences.

### OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City of Federal Way's basic financial statements. The basic financial statements are comprised of three components:

- 1) government-wide financial statements,
- 2) fund financial statements, and
- 3) notes to the financial statements.

In addition to the required components, the City's annual report also includes other supplementary information. The first set of supplementary information is the Combining Statements. These provide Balance Sheets, Statement of Revenues, Expenditures, and Changes in Fund Balances with Budget to Actual Comparisons, Statement of Net Assets, and Cash Flows for all Non-Major Funds. The other set of supplementary information is the Statistical Section. This section provides a four to ten-year view of the City's revenues, expenditures, debt obligations and capacity, the City's largest taxpayers, and those entities with the largest employment within the City of Federal Way. This section provides a long-term perspective on the City's economy.

#### Government-wide Financial Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the City of Federal Way's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the City of Federal Way's assets and liabilities, with the difference between the two reported as *net assets*. This statement serves a purpose similar to that of a balance sheet in private business. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the

timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City of Federal Way that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City of Federal Way include law enforcement and public safety, construction and maintenance of streets, building inspection, municipal court services, jail services, community planning and development services, parks and recreation facilities, other community services and general administration. The business-type activities of the City include surface water management and the control and operation of Dumas Bay Centre, a multi-use facility that offers business and retreat accommodations, recreation and cultural arts classes and a performing arts facility.

The City has no separately identified component units included in the government-wide financial statements. The City has reported its investment in two governmental joint ventures: Valley Communications Center and South Correctional Entity (SCORE). Descriptions of these joint ventures are found in note 14 of the notes to the financial statements.

The government-wide financial statements can be found immediately following this MD&A.

### **Fund Financial Statements**

The annual financial report includes fund financial statements in addition to the government-wide financial statements. While the government-wide statements present the City's finances based on the type of activity, general government versus business-type, the fund financial statements are presented by fund type such as the general funds, special revenue funds, and proprietary funds. A fund is a specific fiscal and accounting entity with a self-balancing set of accounts used to account for specific activities or meet certain objectives. Funds are often set up in accordance with special regulations, restriction or limitations. The City of Federal Way uses fund accounting to ensure and show compliance with finance-related legal requirements. The City's funds are divided into two categories: governmental funds and proprietary funds.

### **Governmental Funds**

Governmental funds are used to account for essentially the same functions as are reported in governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City of Federal Way maintains seventeen individual governmental funds. The City's six major governmental funds, the general fund, street fund, utility tax fund, debt service fund, downtown redevelopment fund, and the transportation fund, are presented separately in the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances. The remaining governmental funds are combined into a single column labeled nonmajor governmental funds. Individual fund data for each of the nonmajor governmental funds can be found in combining statements later on in this report.

The City maintains control over its operating funds through the adoption of the biennial budget. Budgets are adopted at the fund level and according to state law. A budgetary comparison statement is presented for the General, Street, and Utility Tax Fund as a basic financial statement.

The basic governmental fund financial statements can be found on pages after the government-wide statements of this report.

### **Proprietary Funds**

The City of Federal Way maintains two types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide statements. The City uses enterprise funds to account for its surface water management and control and the Dumas Bay Centre. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for its risk management and self-insurance program, information systems, mail and duplication services, fleet of vehicles and motorized equipment, and facilities management.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Surface Water Management fund and for the Dumas Bay Centre. The internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data is provided in the form of combining statements elsewhere in this report.

The basic proprietary fund financial statements can be found following the governmental fund statements of this report.

### Notes to the Financial Statements

The notes provide additional information that is essential to the full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found immediately following the basic financial statements.

### Other Information

In addition to the basic financial statements and accompanying notes, this report also presents the combining statements for nonmajor governmental funds, internal service funds, and capital assets of governmental funds.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

### Statement of Net Assets

The statement of net assets can serve as a useful indicator of the City's financial position. The City of Federal Way's net assets at December 31, 2011 total \$588.1 million. The following is a condensed version of the government-wide statement of net assets.

The largest component of the City's net assets, 88% or \$520.1 million, in its investment in capital assets net any related outstanding debt issued to acquire those assets. These capital assets such as land, streets, trails, parks, police vehicles, and parks equipment are used to provide services to the citizens. Consequently, these assets are not available to sell and convert to cash for future spending.

	CONDENSED STATEMENT OF NET ASSETS					
	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Current and other assets	\$ 83,596,160	\$ 83,706,625	\$ 6,033,543	\$ 5,627,082	\$ 89,629,703	\$ 89,333,707
Capital assets and CIP, net of accumulated depreciation	482,724,905	478,651,345	51,080,562	51,773,132	533,805,467	530,424,477
Total assets	566,321,065	562,357,970	57,114,105	57,400,214	623,435,170	619,758,184
Long-term liabilities	29,731,230	30,216,587	1,106,377	1,273,197	30,837,607	31,489,784
Other liabilities	3,970,884	4,414,309	537,224	539,142	4,508,108	4,953,451
Total liabilities	33,702,114	34,630,896	1,643,601	1,812,339	35,345,715	36,443,235
Net assets:						
Invested in capital assets, net of related debt	470,074,905	465,671,345	50,052,887	50,563,097	520,127,792	516,234,442
Restricted	23,941,601	17,442,323	18,831	9,411	23,960,432	17,451,734
Unrestricted	38,602,445	44,613,406	5,398,786	5,015,367	44,001,231	49,628,773
Total net assets	\$ 532,618,951	\$ 527,727,074	\$ 55,470,504	\$ 55,587,875	\$ 588,089,455	\$ 583,314,949

Approximately 3% or \$19.7 million of the total net assets of the city are earmarked for construction improvement projects. \$14.5 million of the \$19.7 million earmarked for construction improvement projects are restricted and the remainder is committed to construction improvement projects. Some of the major projects include the Annual Transportation System Safety Improvements, S 348th St at 1st Ave S, S 320th St at 20th Ave S, SW 312th St at SR509, SW Camp Dr - 21st Ave SW, S 352nd St Ext from SR99-SR161, S 320th St at I-5 S Ramp, SR99 HOV Lanes PH IV, 21st Ave SW at SW 336th St, and S 344th Way at Weyerhaeuser Way S. During the year, the City funded renovation and improvement of neighborhood parks and open space parks such as Lakota Park, Panther Lake, and various playground improvements. The City attempts to fund capital construction projects on a pay-as-you-go basis, aggressively pursuing transportation grant funding and cost sharing with developers to construct large projects in the City that impact the transportation system.

The remaining balance of restricted net assets is divided among restrictions for: \$146 thousand for police special funds, petty cash/change funds and advance travel, \$86 thousand for municipal court trust fund, \$18 thousand for prepaid insurance/debt, \$3.9 million for debt service prefunding, \$557 thousand Special Contracts/Studies, \$213 thousand for

Hotel/Motel lodging tax, \$152 thousand for Path & Trails Reserve, and \$49 thousand for Community Development Block Grant. The business-type activities portion of \$5.3 million, \$5.2 million can only be spent on surface water management and the remaining \$96 thousand on improvements to Dumas Bay Centre and Knutzen Family Theatre. Maintenance of catch basins, pump stations, storm drain flushing, and other capital construction projects such as West Branch Lakota Creek Restoration are examples of utility activities. Other functions of the City may access the remaining \$18.8 million to meet ongoing obligation to citizens and creditors. Examples of other City obligations which these net assets may be used for are public safety, parks maintenance, and ongoing street maintenance.

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

**Changes in Net Assets**

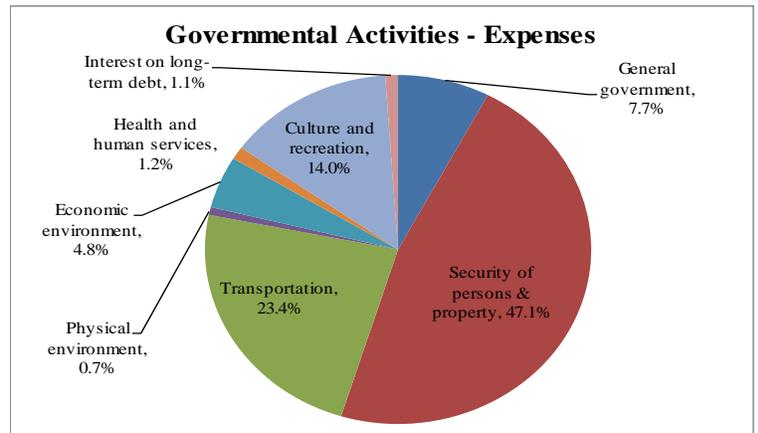
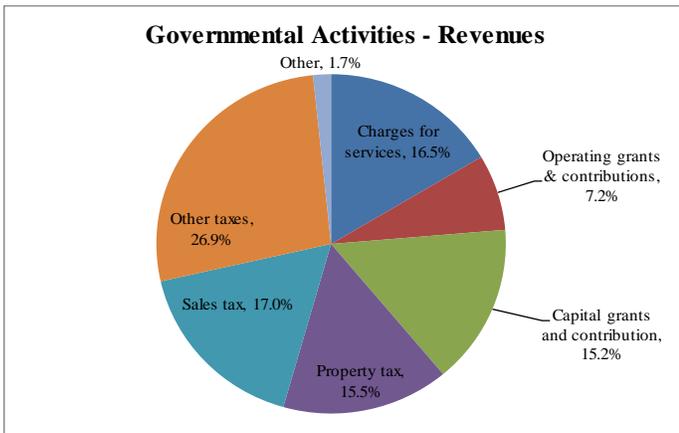
The changes in net assets table illustrates the increases or decreases in net assets of the City resulting from its operating activities. The City’s net assets increased approximately \$4.8 million in 2011. The increase is mainly due to general governmental activities which contributed 102% or \$4.9 million of the increase.

The 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 in tabular form for the governmental activities separate from the business-type activities. The graphs that follow compare program revenues to program expenses and illustrate the revenues by source separately for the governmental and business-type activities.

**Governmental activities** contributed \$4.9 million or 102% of the total change in net assets of \$4.8 million. The increase is mainly due to the overall increase in capital assets of which \$2.4 million was contributed from developers and \$1.1 million increase in joint venture. Information in regards the joint venture is found in Note 14 starting on page 60.

Compared to 2010, total governmental revenues decrease by \$6.5 million or 11%. The decrease is mainly due to less funding received from federal and state assistance which decreased \$6.5 million from 2010. In 2010, the City received \$5 million in state funding for the purchase of the old Toys “R” Us site for the future site of the Performing Arts and Civic Center.

Total governmental expenses decrease by \$767 thousand or 1% which is mainly due to decrease in capital outlay which is offset by increase in City’s jail services. The increase in jail services is for the start-up cost of the South Correctional Entity (SCORE) which opened in the fall of 2011. Information in regards the joint venture is found in Note 14 starting on page 60.



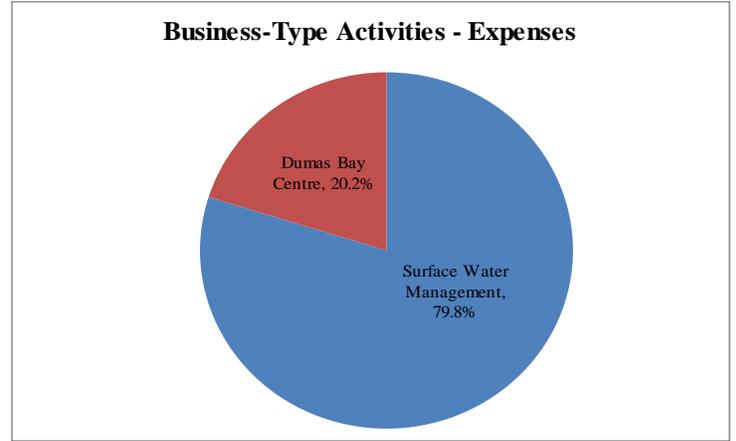
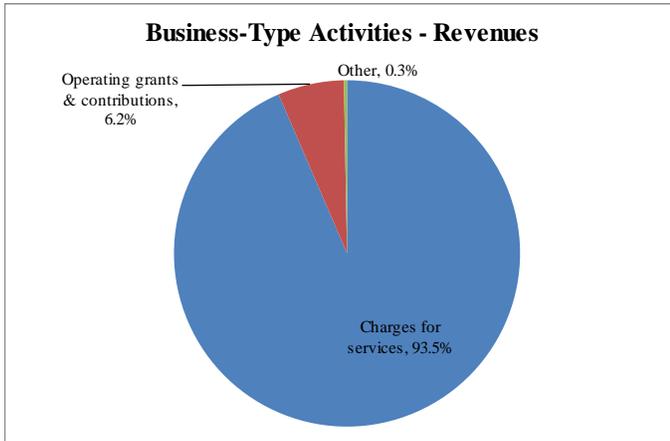
## CHANGES IN NET ASSETS RESULTING FROM CHANGES IN REVENUES AND EXPENSES

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Revenues:						
Programs revenues:						
Charges for services	\$ 10,487,684	\$ 10,817,501	\$ 4,020,144	\$ 4,246,235	\$ 14,507,828	\$ 15,063,736
Operating grants & contributions	4,597,981	9,718,920	265,660	-	4,863,641	9,718,920
Capital grants & contributions	9,716,551	9,044,477	-	-	9,716,551	9,044,477
Programs revenues:						
Property taxes	9,867,614	9,609,740	-	-	9,867,614	9,609,740
Sales tax	10,858,381	10,708,951	-	-	10,858,381	10,708,951
Local criminal justice sales tax	1,795,971	1,701,120	-	-	1,795,971	1,701,120
Utility tax	13,068,510	12,890,310	-	-	13,068,510	12,890,310
Real estate excise tax	1,560,395	1,403,361	-	-	1,560,395	1,403,361
Other taxes	702,553	813,034	-	-	702,553	813,034
Other	1,061,026	1,045,608	12,405	17,646	1,073,431	1,063,254
Total Revenue	63,716,666	67,753,022	4,298,209	4,263,881	68,014,875	72,016,903
Expenses:						
General government	4,448,449	4,865,827	-	-	4,448,449	4,865,827
Security of persons & property	27,222,584	26,842,240	-	-	27,222,584	26,842,240
Transportation	13,539,598	9,781,800	-	-	13,539,598	9,781,800
Physical environment	424,466	451,470	-	-	424,466	451,470
Economic environment	2,782,435	3,175,005	-	-	2,782,435	3,175,005
Health and human services	690,643	767,108	-	-	690,643	767,108
Culture and recreation	8,105,578	8,073,804	-	-	8,105,578	8,073,804
Interest on long-term debt	614,571	685,214	-	-	614,571	685,214
Surface Water Management	-	-	3,527,590	3,384,352	3,527,590	3,384,352
Dumas Bay Centre	-	-	890,738	849,176	890,738	849,176
Total Expenses	57,828,324	54,642,468	4,418,328	4,233,528	62,246,652	58,875,996
Change in net assets before transfers	5,888,342	13,110,554	(120,119)	30,353	5,768,223	13,140,907
Transfers	(113,000)	-	113,000	-	-	-
Change in net assets	5,775,342	13,110,554	(7,119)	30,353	5,768,223	13,140,907
Net assets - beginning	527,727,074	514,463,753	55,587,875	55,710,290	583,314,949	570,174,043
Prior period adjustment	(883,465)	-	(110,252)	-	(993,717)	-
Adjusted Net assets - beginning	526,843,609	514,463,753	55,477,623	55,710,290	582,321,232	570,174,043
Net assets - ending	532,618,951	527,574,307	55,470,504	55,740,643	588,089,455	583,314,950

**Business-type activities** of the City's Surface Water Management system and Dumas Bay Centre decreased the City's net assets by \$117 thousand. Surface Water Management Fund increase by \$99 thousand which was offset by a decreased in Dumas Bay Centre Fund net assets by \$99 thousand.

Surface Water Management increase in fund balance is due to a prior period adjustment in Surface Water Management for a settlement that was capitalized incorrectly in project 251 Joe's Creek Regional Stormwater Facility and Salmon Habitat.

The decrease in Dumas Bay Centre is due to awarding the managing and operations of the Knutzen Family Theatre to Centerstage starting July 1st, 2010. The City continues to pay for repair and maintenance for the Knutzen Family Theatre without offsetting revenues.



**FINANCIAL ANALYSIS OF THE CITY’S FUNDS**

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

**Governmental funds**

The focus of the City of Federal Way’s governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City’s financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government’s net resources available for spending at the end of the fiscal year.

As of the end of 2011, the City’s governmental funds had a combined ending fund balance of \$43.6 million which decreased by \$1.3 million from the prior year. Approximately 28% or \$12.4 million of this amount constitutes unrestricted General Fund balance, which is available for spending at the City Council’s discretion. The remainder of the fund balance is restricted to indicate that it is not available for new spending because it has already been committed for debt service payments, capital projects, police special funds and petty cash/change fund/advance travel.

The General Fund is the chief operating fund of the City. Total fund balance increased \$4.2 million or 50%. The increase in fund balance is mainly due to capital project funds returning \$3.8 million of unspent and/or savings to the General Fund and a one-time transfer of \$375 thousand from the Traffic Safety Fund which is funded by Red Light Photo citations to support Police operations in the General Fund.

In addition, there was an increase of \$370 thousand or 1% in revenues while expenses only increased \$117 thousand.

The Utility Tax fund was established to account for the utility tax receipts which include 6% collected for capital, debt, and other maintenance & operations as determined by Council and the remaining 1.75% is for Voter Approved enhanced Police and Community Safety in 2007. Total fund balance increased \$791 thousand or 23% from 2010.

The Debt Service Fund has a total fund balance of \$3.9 million which increased by \$487 thousand from 2010. The overall decrease is mainly due to the overall increase in real estate excise tax available for transfer for construction in progress projects along with debt payments.

The Downtown Redevelopment fund was established to accumulate resources and set aside funding for downtown projects. Overall, ending fund balance decreased by \$799 thousand or 27%.

The Transportation Fund is used to improve existing traffic signals, new signalization, major roadways and arterials involving the design and construction of new sections of streets, the widening of roadways to provide additional vehicle lanes, the installation of sidewalks and landscaping. The major source of revenue for this fund is grants from other agencies and contributions from other funds. Total ending fund balance decreased by \$6.3 million or 31%.

**Proprietary funds**

The City of Federal Way’s proprietary funds provide the same type of information found in the government-wide, but in more detail. Unrestricted net assets of the Surface Water Management Fund at the end of the year amounted to \$5.2 million, and

those for Dumas Bay Centre amounted to \$96 thousand. The total change in net assets for both funds was \$427 thousand increase and \$46 thousand decrease, respectively. Other factors concerning the finances of these two funds have already been addressed in the discussion of the City of Federal Way's business-type activities.

## GENERAL FUND BUDGETARY AND ACTUAL HIGHLIGHTS

The City of Federal Way budgets on a biennial basis with each budget beginning in an odd numbered year. Appropriations for operating funds are authorized for two years, but must be reviewed and reauthorized by the City Council in the middle of the biennial period. In 2011, the City made two budget adjustments. The following discussion is reflective only of the current year of the biennium.

The General Fund operating budget increased by \$429 thousand between the original adopted budget for and the adjusted adopted budget for 2011 fiscal year. The following is the major changes for the 2011 budget:

- Added \$666 thousand for grant/contribution items;
- Added \$475 thousand for pending/future deductibles;
- Added \$420 thousand for PERS (Public Employees' Retirement System) reserves;
- Added \$150 thousand for gas increase;
- Added \$106 thousand for increase in election costs;
- Added \$100 thousand for unemployment claim increase;
- Added \$12 thousand for contribution to Mental Health from Liquor excise taxes;
- Added \$10 thousand one-time increase for labor negotiations;
- Added \$83 thousand for 1.0 FTE Communication and Grant Writer;
- Added \$12 thousand for 0.25 FTE increase for Human Resource Assistant;
- Added \$25 thousand for 0.49 FTE Administrative Service Analyst;
- Eliminate \$144 thousand for elimination of 1.0 FTE Human Resources Manager and convert Senior Human Resource Analyst to Human Resource Manager;
- Eliminate \$33 thousand for elimination of 1.0 FTE Human Services Manager and 1.0 CDBG Coordinator and add 0.50 FTE to Human Services Technician;
- Eliminate \$241 thousand for 3.0 FTE frozen Police Officer;
- Eliminate \$195 thousand for 1.0 FTE unfilled Chief Administrative Officer;
- Eliminate \$163 thousand for Community Development and Economic Development reorganization which eliminated 1.0 FTE Community Development Director;
- Eliminated \$99 thousand 1.0 FTE Information Technology Technician;
- Eliminated \$7 thousand for National League of Cities association dues;
- Eliminated \$5 thousand for council retreat facilitator;
- Eliminated \$70 thousand for Federal Lobbyist;
- Eliminated \$98 thousand for unspent termination pay and outplacement cost;
- Reduced courier/postage by \$10 thousand due to switching vendors;
- Reduced sponsorship policy by \$10 thousand;
- Reduced travel and training by \$25 thousand;
- Reduced dispatch services by \$199 thousand;
- Added \$98 thousand for various internal service programs;
- Added \$663 thousand for program balances continuing into 2011 from 2010 such as federal/state seizure balance, downtown redevelopment, family medical leave, abatement funding, graffiti program, permit system upgrade, public defender open cases, wire theft, shoreline master plan, and outside counsel; and
- Rolled forward \$1.1 million for contingency reserve funds.

Adjustments to revenues and other sources budget include: Adjustments to beginning balance of \$3.1 million, increase of \$640 thousand for grant/contribution revenues, increase in liquor profits of \$312 thousand, increase in gambling tax of \$250 thousand for the reopening of a card room establishment, increase of \$190 thousand for criminal justice high crime distribution from the state, increase of \$120 thousand for property taxes, increase of \$74 thousand for criminal justice sales tax, increase in franchise fees of \$36 thousand, increase of \$22 thousand in park revenues, increase of \$10 thousand for business licenses, increase of \$2 thousand for leasehold excise tax, decrease of \$162 thousand for animal license, decrease in building and electrical permits of \$150 thousand, decrease of \$40 thousand for interest, decrease of \$60 thousand for court revenues. Other sources changes include increase for transfer in for fleet excess reserves of \$56 thousand, increase for secure our school grant contribution for \$9 thousand and a decrease in transfer in of \$70 thousand for elimination of the federal lobbyist.

The General Fund ending fund balance of \$12.6 million is \$3.8 million over the above the projected \$8.8 million for 2011 year-end. The \$1.8 million of the \$3.8 million excess is being earmarked for carry forward into 2012. The remaining \$2.0 million increase is considered one-time funds.

The \$3.8 million increase in ending fund balance is made up of \$211 thousand in additional revenues/other sources and \$3.6 million in unspent expenses/other sources.

The \$211 thousand increase in revenues is attributed to increases in sales tax of \$175 thousand; criminal justice sales tax of \$86 thousand; parks & fees of \$48 thousand; franchise fees of \$8 thousand; and \$2 thousand for business licenses; offset by decreases in: state shared revenues of \$26 thousand; property tax of \$24 thousand, and court revenue of \$18 thousand; transfer-in from utility tax of \$164 thousand due to lower cost than anticipated; and grants & contributions of \$146 thousand.

The \$3.6 million unspent expenses are attributable to savings found in: Police & Jail services of \$747 thousand; Community & Economic Development of \$529 thousand; Pension Reserves of \$420 thousand; Risk Management Deductible Claims of \$155 thousand; Mayor's Office/Human Services of \$348 thousand; Parks & Recreation of \$241 thousand, Law of \$196 thousand; Human Resources/City Clerk of \$192 thousand, Municipal Court of \$123 thousand; Finance of \$46 thousand, and City Council of \$28 thousand.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

The City of Federal Way's investment in capital assets for its governmental and business-type activities as of December 31, 2011 amounts to \$533.8 million (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, infrastructure, park facilities and construction in progress. For more details, please see Note 8.

#### CAPITAL ASSETS AT YEAR-END, NET OF DEPRECIATION

	Governmental	Business-Type	Total	
	Activities	Activities	2011	2010
Land	\$ 302,168,217	\$ 10,310,215	\$ 312,478,433	\$ 311,577,872
Building and improvements	40,471,948	36,470,917	76,942,864	80,241,357
Machinery and equipment	5,068,341	29,956	5,098,298	5,098,553
Infrastructure	113,858,340	1,816,003	115,674,344	115,546,565
Construction in progress	21,158,058	2,453,470	23,611,529	17,960,130
Total Capital Assets	\$ 482,724,904	\$ 51,080,559	\$ 533,805,463	\$ 530,424,476

Major capital asset events during the current fiscal year included the following: expanding and improving the city streets and traffic corridors for a total of \$11.0 million and general capital and various park improvements for \$225 thousand. Additional information on the City of Federal Way's capital assets can be found in Note 8 of the Notes to the Financial Statements.

### Long-term debt

At the end of 2011, the City of Federal Way had total bonded debt outstanding of \$47.3 million for future principal and interest payments which are backed by the full faith and credit of the government. The remainder of the City's debt represents Public Works Trust Fund Loans.

#### LONG-TERM DEBT (FUTURE PRINCIPAL AND INTEREST PAYMENTS)

	Governmental	Business-Type	Total	
	Activities	Activities		
General obligation bonds	\$ 46,230,633	\$ -	\$ 46,230,633	
Public works trust fund loan	-	1,067,453		1,067,453
Total	\$ 46,230,633	\$ 1,067,453	\$ 47,298,086	

The City's total debt decreased by \$1.3 million due to annual debt service payments.

The City of Federal Way maintains an Aa1 rating from Moody's as of July 2011 for its general obligation bonds.

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

The City's assessed valuation for 2011 was \$7.773 billion and the total amount of debt the City may issue is \$558.3 million. Remaining legal debt capacities as of December 31, 2011 are:

General government (no vote required)	\$ 94,879,813
General government (3/5 majority vote required)	77,229,838
Parks and open space (3/5 majority vote required)	193,074,595
Utilities (3/5 majority vote required)	193,074,595
<b>Total Capacity</b>	<b>\$ 558,258,841</b>

Additional information on the City of Federal Way's long-term debt can be found in Note 11 and in the Statistical Section of this report.

### **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The economy was growing entering into 2011, but for many Americans life was not getting better. Unemployment remained high, home values are depressed, and state budgets were in deep trouble signifying more layoffs, services cuts and potential tax increases.

Rising oil and gasoline prices are once again threatening the U.S. economic recovery. The root of the cause is geopolitical turmoil in the Middle East. The threat of removing Iranian oil supplies is pushing gas prices higher. However it's uncertain how this will affect the U.S. economic growth because it depends on if the increase is transitory or longer lasting. As oil prices increases, consumers will be forced to shift discretionary spending away from big-ticket purchases of autos, furniture, appliances, and purchase of nondurables. Higher oil prices act as a tax on consumers and most of these dollars move out of the United States.

Like the rest of the nation, Washington state economy is still dealing with a severely damaged economy. How quickly the region emerges from this disastrous downturn largely depends on how fast the nation recovers.

The Puget Sound region, however, is doing better than the rest of the country, employment growing 1.6% over the year compared to 1% for the nation. That's largely thanks to Boeing, which hired 7,000 more workers during the period and probably indirectly created another 7,000 jobs. Without those 14,000 jobs, regional employment would have increased at the same rate as the nation.

Despite the lift from Boeing, the regional economy remains in fragile state. Foreclosures are still holding down the housing market, while weak tax collections are forcing state and local governments to cut programs and eliminate jobs.

In addition, the State is currently trying to fix a gap of more than \$1 billion in the state's main budget. The House and the Senate both have different strategies to balance the budget. Some proposed reductions includes eliminating Basic Health Plan, Disability Lifeline, permanently reduce certain state distributions to local governments which includes support for criminal justice programs, and K-12 & higher education reductions. The State's current proposed budget could cost the City of Federal Way approximately \$450 thousand per year. With the uncertainty of the State's budget and economic recovery, maintaining City services at the current levels can be challenging.

With the uncertainty with the State's budget crisis, rising fuel costs, and unexpected increase in contracted costs; the City approaches the 2013/14 budget with heightened caution. The City is proceeding with caution and restraint, so that it is not overly susceptible to and minimizes the local economy slump without huge fluctuations in services to our citizens. Staff will closely monitor and assess economic impacts experienced around our state and within our local economy to anticipate any negative impact on critical City revenues.

**REQUEST FOR INFORMATION**

This financial report is designed to provide a general overview of the City of Federal Way's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Finance Department, City of Federal Way, 33325 8<sup>th</sup> Avenue South, Federal Way, Washington 98003, telephone 253-835-2523, or visit the City's website at [www.cityoffederalway.com](http://www.cityoffederalway.com).

# **BASIC FINANCIAL STATEMENTS**

**STATEMENT OF NET ASSETS**

December 31, 2011

	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
<b>ASSETS</b>			
Cash & cash equivalents and investments	\$ 57,643,479	\$ 5,544,437	\$ 63,187,916
Receivables (net)	2,548,940	388,086	2,937,026
Due from other governments	3,239,799	101,018	3,340,817
Prepaid items	22,609	-	22,609
Restricted assets:			
Cash with escrow agent	6,922	-	6,922
Seizure funds/Petty cash/Advance travel/Retainage	364,190	-	364,190
Investment in joint venture	19,770,221	-	19,770,221
Capital assets not being depreciated:			
Land	302,168,217	10,310,215	312,478,433
Construction in progress	21,158,058	2,453,470	23,611,529
Capital assets net of accumulated depreciation:			
Buildings/structures	11,536,144	980,884	12,517,029
Improvements other than buildings	28,935,803	35,490,032	64,425,836
Machinery and equipment	5,068,341	29,956	5,098,298
Infrastructure	113,858,340	1,816,003	115,674,344
Total Assets	<u>566,321,065</u>	<u>57,114,105</u>	<u>623,435,170</u>
<b>LIABILITIES</b>			
Accounts payable and accruals	2,336,862	59,927	2,396,789
Unearned revenue	347,312	449,310	796,622
Retainage payable	221,165	-	221,165
Retainage payable - with escrow agent	-	5,660	5,660
Due to other governments	123,247	16,990	140,237
Customer deposits	942,298	5,337	947,635
Noncurrent Liabilities:			
Due within one year	646,264	184,893	831,157
Due in more than one year	13,778,016	921,484	14,699,500
Due to other governments	<u>15,306,950</u>	<u>-</u>	<u>15,306,950</u>
Total Liabilities	<u>33,702,114</u>	<u>1,643,601</u>	<u>35,345,715</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	470,074,905	50,052,887	520,127,792
Restricted for:			
Customer deposit	16,206	5,337	21,543
Debt service prefunding	3,866,184	-	3,866,184
Capital projects	19,711,227	-	19,711,227
Steel Lake & North Lake Mgmt District	-	13,494	13,494
Other	364,190	-	364,190
Unrestricted	<u>38,586,239</u>	<u>5,398,786</u>	<u>43,985,025</u>
Total Net Assets	<u>\$ 532,618,951</u>	<u>\$ 55,470,504</u>	<u>\$ 588,089,455</u>

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

**STATEMENT OF ACTIVITIES**  
For the Year ended December 31, 2011

Functions/Programs	Program Revenues				Net (Expense) Revenue & Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
<i>Governmental Activities:</i>							
General government	\$ 4,448,449	\$ 815,432	\$ 1,851,768	\$ -	\$ (1,781,249)	\$ -	\$ (1,781,249)
Security of persons & property	27,222,584	4,990,091	720,245	-	(21,512,248)	-	(21,512,248)
Transportation	13,539,598	2,481,904	1,721,893	9,625,608	289,807	-	289,807
Physical environment	424,466	77,808	146,460	-	(200,198)	-	(200,198)
Economic environment	2,782,435	510,040	129,628	25,943	(2,116,824)	-	(2,116,824)
Health	690,643	126,600	2,583	-	(561,460)	-	(561,460)
Culture & recreation	8,105,578	1,485,810	25,404	65,000	(6,529,364)	-	(6,529,364)
Interest on long-term debt	614,571	-	-	-	(614,571)	-	(614,571)
Total governmental activities	57,828,324	10,487,684	4,597,981	9,716,551	(33,026,108)	-	(33,026,108)
<i>Business-type Activities:</i>							
Surface Water Management	3,527,590	3,458,435	265,660	-	-	196,505	196,505
Dumas Bay Centre	890,738	561,709	-	-	-	(329,029)	(329,029)
Total business-type activities	4,418,328	4,020,144	265,660	-	-	(132,524)	(132,524)
<b>Total</b>	<b>\$ 62,246,652</b>	<b>\$ 14,507,828</b>	<b>\$ 4,863,641</b>	<b>\$ 9,716,551</b>	<b>(33,026,108)</b>	<b>(132,524)</b>	<b>(33,158,632)</b>
General revenues:							
					9,867,614	-	9,867,614
					10,858,381	-	10,858,381
					1,795,971	-	1,795,971
					13,068,510	-	13,068,510
					1,560,395	-	1,560,395
					511,005	-	511,005
					185,289	-	185,289
					6,259	-	6,259
					960,012	-	960,012
					101,014	12,405	113,419
					(113,000)	113,000	-
					38,801,450	125,405	38,926,855
					5,775,342	(7,119)	5,768,223
					527,727,074	55,587,875	583,314,949
					(883,465)	(110,252)	(993,717)
					526,843,609	55,477,623	582,321,232
					<u>\$532,618,951</u>	<u>\$55,470,504</u>	<u>\$ 588,089,455</u>

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

**BALANCE SHEET  
GOVERNMENTAL FUNDS**

December 31, 2011

	General	Street	Utility Tax	Debt Service
<b>ASSETS</b>				
Equity in pooled cash & investments	\$ 12,434,843	\$ 749,137	\$ 2,701,206	\$ 3,908,649
Prepaid insurance/debt service	17,609	-	-	-
Retainage in escrow	-	-	-	-
Receivables (net):				
Taxes	566,113	-	1,466,988	84,735
Accounts and contracts	(14,025)	7,000	-	-
Restricted cash	253,527	3,695	-	-
Due from other governments	1,665,653	87,244	2,674	-
Interfund loans receivable	10,000	-	-	-
	<b>14,933,720</b>	<b>847,076</b>	<b>4,170,868</b>	<b>3,993,384</b>
 <b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Vouchers payable	1,387,107	84,506	-	-
Accounts/payroll payable	22	-	-	-
Retainage payable	-	3,695	-	-
Due to other governments	123,247	-	-	-
Deposits payable	332,283	593,809	-	-
Interfund loans payable	-	-	-	-
Deferred revenue	446,913	65,066	-	127,200
	<b>2,289,572</b>	<b>747,076</b>	<b>-</b>	<b>127,200</b>
 Fund Balance:				
Nonspendable	104,012	-	-	-
Restricted	145,524	-	-	3,866,184
Committed	21,893	100,000	4,170,868	-
Unassigned	12,372,719	-	-	-
	<b>12,644,148</b>	<b>100,000</b>	<b>4,170,868</b>	<b>3,866,184</b>
 <b>TOTAL LIABILITIES AND FUND BALANCE</b>				
	<b>\$ 14,933,720</b>	<b>\$ 847,076</b>	<b>\$ 4,170,868</b>	<b>\$ 3,993,384</b>

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

**BALANCE SHEET  
GOVERNMENTAL FUNDS**

December 31, 2011

	Downtown Redevelopment	Transportation	Nonmajor Governmental	Total
<b>ASSETS</b>				
Equity in pooled cash & investments	\$ 2,215,333	\$ 12,440,381	\$ 7,069,386	\$ 41,518,934
Prepaid insurance/debt service	-	-	-	17,609
Retainage in escrow	-	-	6,922	6,922
Receivables (net):				
Taxes	268	-	-	2,118,104
Accounts and contracts	-	307,620	89,666	390,261
Restricted Cash	-	106,969	-	364,190
Due from other governments	-	1,310,374	124,794	3,190,739
Interfund loans receivable	-	-	-	10,000
	<b>2,215,601</b>	<b>14,165,343</b>	<b>7,290,768</b>	<b>47,616,761</b>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Vouchers payable	8,334	248,697	229,988	1,958,632
Accounts/payroll payable	-	-	-	22
Retainage payable	-	106,969	110,502	221,165
Due to other governments	-	-	-	123,247
Deposits payable	-	-	16,206	942,298
Interfund loans payable	-	-	10,000	10,000
Deferred revenue	216	-	110,116	749,512
	<b>8,550</b>	<b>355,666</b>	<b>476,812</b>	<b>4,004,876</b>
Fund Balance:				
Nonspendable	-	-	-	104,012
Restricted	2,023,299	9,573,357	3,862,649	19,471,013
Committed	183,752	4,236,320	2,951,308	11,664,141
Unassigned	-	-	-	12,372,719
	<b>2,207,051</b>	<b>13,809,677</b>	<b>6,813,957</b>	<b>43,611,884</b>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b>\$ 2,215,601</b>	<b>\$ 14,165,343</b>	<b>\$ 7,290,769</b>	
Amounts reported for governmental activities in the statement of net assets are different because:				
Capital assets are used in governmental activities are not financial resources and, therefore, are not reported in the funds.				466,356,928
Investment in joint venture is not a financial resource and, therefore, not reported in the funds				19,770,221
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds				448,562
Internal service funds are used by management to charge the costs of insurance, information systems, mail and duplication, fleet, and building management to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net as:				32,162,587
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.				(29,731,230)
Net assets of governmental activities				<b>\$ 532,618,951</b>

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

**STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
For Year Ended December 31, 2011**

	General	Street	Utility Tax	Debt Service
<b>REVENUES</b>				
Taxes	\$ 22,844,503	\$ -	\$ 13,068,510	\$ 1,560,395
Licenses and permits	2,089,924	119,949	-	-
Intergovernmental	2,220,929	1,233,570	-	-
Service charges and fees	2,868,359	255,614	-	-
Fines and forfeitures	1,200,997	-	-	-
Interest	85,701	603	3,726	3,454
Other	528,363	55,407	-	-
<b>TOTAL REVENUES</b>	<b>31,838,777</b>	<b>1,665,144</b>	<b>13,072,237</b>	<b>1,563,848</b>
<b>EXPENDITURES</b>				
Current:				
General government	3,973,098	-	48,000	-
Security of persons and property	28,314,187	-	-	-
Transportation	-	4,110,014	-	-
Physical environment	-	-	-	-
Economic environment	2,400,051	-	-	-
Health	690,824	-	-	-
Culture and recreation	3,589,643	-	-	-
Debt service:				
Principal	-	-	-	457,520
Interest/fiscal charges/admin fees	-	-	-	614,571
Capital outlay	68,720	-	-	-
<b>TOTAL EXPENDITURES</b>	<b>39,036,523</b>	<b>4,110,014</b>	<b>48,000</b>	<b>1,072,091</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(7,197,746)</b>	<b>(2,444,870)</b>	<b>13,024,237</b>	<b>491,757</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Sale of capital assets	-	-	-	-
Transfers in	13,222,353	2,444,870	-	915,000
Transfers out	(1,818,870)	-	(12,563,553)	(920,000)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>11,403,483</b>	<b>2,444,870</b>	<b>(12,563,553)</b>	<b>(5,000)</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>4,205,737</b>	<b>(0)</b>	<b>460,684</b>	<b>486,757</b>
<b>FUND BALANCES - BEGINNING</b>	<b>8,438,118</b>	<b>100,000</b>	<b>3,710,184</b>	<b>3,379,427</b>
Adjustment for GASB 54 - Beginning fund balance	293	-	-	-
<b>ADJUSTED FUND BALANCES - BEGINNING</b>	<b>8,438,411</b>	<b>100,000</b>	<b>3,710,184</b>	<b>3,379,427</b>
<b>FUND BALANCES - ENDING</b>	<b>\$ 12,644,148</b>	<b>\$ 100,000</b>	<b>\$ 4,170,868</b>	<b>\$ 3,866,184</b>

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

**STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
For Year Ended December 31, 2011**

	Downtown Redevelopment	Transportation	Nonmajor Governmental	Total
<b>REVENUES</b>				
Taxes	\$ 13,333	\$ -	\$ 344,304	\$ 37,831,045
Licenses and permits	-	-	-	2,209,873
Intergovernmental	25,943	7,316,587	916,218	11,713,248
Service charges and fees	-	977,685	2,029,629	6,131,287
Fines and forfeitures	-	-	945,527	2,146,524
Interest	2,339	(13,159)	6,673	89,338
Other	104,431	9,246	262,564	960,012
<b>TOTAL REVENUES</b>	<b>146,046</b>	<b>8,290,360</b>	<b>4,504,916</b>	<b>61,081,327</b>
<b>EXPENDITURES</b>				
Current:				
General government	-	-	213,229	4,234,327
Security of persons and property	-	-	18,050	28,332,237
Transportation	-	1,081,166	2,236,228	7,427,408
Physical environment	-	-	427,315	427,315
Economic environment	194,800	-	187,686	2,782,537
Health	-	-	-	690,824
Culture and recreation	-	-	2,231,517	5,821,160
Debt service:				
Principal	-	-	-	457,520
Interest/fiscal charges/admin fees	-	-	-	614,571
Capital outlay	-	11,020,921	470,564	11,560,205
<b>TOTAL EXPENDITURES</b>	<b>194,800</b>	<b>12,102,087</b>	<b>5,784,589</b>	<b>62,348,104</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(48,754)</b>	<b>(3,811,727)</b>	<b>(1,279,673)</b>	<b>(1,266,777)</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Sale of capital assets	-	9,162	-	9,162
Transfers in	-	1,611,000	3,260,000	21,453,223
Transfers out	(750,000)	(4,100,000)	(1,358,000)	(21,510,423)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(750,000)</b>	<b>(2,479,838)</b>	<b>1,902,000</b>	<b>(48,038)</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>(798,754)</b>	<b>(6,291,565)</b>	<b>622,327</b>	<b>(1,314,815)</b>
<b>FUND BALANCES - BEGINNING</b>	<b>3,005,805</b>	<b>20,101,242</b>	<b>6,191,923</b>	<b>44,926,699</b>
Adjustment for GASB 54 - Beginning fund balance	-	-	(293)	-
<b>ADJUSTED FUND BALANCES - BEGINNING</b>	<b>3,005,805</b>	<b>20,101,242</b>	<b>6,191,630</b>	<b>44,926,699</b>
<b>FUND BALANCES - ENDING</b>	<b>\$ 2,207,051</b>	<b>\$ 13,809,677</b>	<b>\$ 6,813,957</b>	<b>\$ 43,611,884</b>

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

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

For the Year Ended December 31, 2011

	2011
Amounts reported for governmental activities in the statement of activities (page 19) are different because:	
Net change in fund balances--total governmental funds	\$ (1,314,815)
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 outlays exceeded depreciation in the current period.	6,553,575
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	22,379
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the issuance proceeds of new debt as current financial resources and payment as the use of current resources, whereas these amounts reduce the net assets.	526,000
Internal service funds are used by management to charge costs of risk management, information systems, mail & duplication, fleet, and building systems to the funds.	31,600
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the funds.	(43,396)
Change in net assets of governmental activities	\$ 5,775,342

**GENERAL FUND**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**BUDGET AND ACTUAL**

For Year Ended December 31, 2011

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Taxes	\$ 22,113,000	\$ 22,559,000	\$ 22,844,503	\$ 285,503
Licenses and permits	2,326,000	2,060,000	2,089,924	29,924
Intergovernmental	1,333,600	2,389,469	2,220,929	(168,540)
Service charges and fees	2,609,943	2,650,421	2,868,359	217,938
Fines and forfeitures	1,255,150	1,252,235	1,200,997	(51,238)
Interest	112,000	72,000	85,701	13,701
Other	392,150	405,205	528,363	123,158
<b>TOTAL REVENUES</b>	30,141,843	31,388,330	31,838,777	450,447
<b>EXPENDITURES</b>				
Current:				
General government	5,274,824	5,123,307	3,973,098	1,150,209
Security of persons and property	29,102,817	29,296,190	28,314,187	982,003
Economic environment	2,819,371	2,920,672	2,400,051	520,621
Health	724,559	730,669	690,824	39,845
Culture and recreation	3,703,289	3,830,551	3,589,643	240,908
Capital outlay	8,638	161,472	68,720	92,752
<b>TOTAL EXPENDITURES</b>	41,633,498	42,062,860	39,036,523	3,026,337
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	(11,491,655)	(10,674,530)	(7,197,746)	3,476,784
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	13,400,509	13,395,674	13,222,353	(173,321)
Transfers out	(2,119,306)	(2,352,386)	(1,818,870)	533,516
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	11,281,203	11,043,288	11,403,483	360,195
<b>NET CHANGE IN FUND BALANCES</b>	(210,452)	368,758	4,205,737	3,836,979
<b>FUND BALANCES - BEGINNING</b>	5,292,275	8,438,116	8,438,118	2
Adjustment for GASB 54 - Beginning fund balance	-	293	293	-
<b>ADJUSTED FUND BALANCES - BEGINNING</b>	5,292,275	8,438,409	8,438,411	2
<b>FUND BALANCES - ENDING</b>	\$ 5,081,823	\$ 8,807,167	\$ 12,644,148	\$ 3,836,981

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

**STREET FUND**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**BUDGET AND ACTUAL**  
For Year Ended December 31, 2011

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Licenses and permits	\$ 114,130	\$ 124,131	\$ 119,949	\$ (4,182)
Intergovernmental	1,254,361	1,378,463	1,233,570	(144,892)
Service charges and fees	219,100	199,300	255,614	56,314
Interest	2,000	2,000	603	(1,397)
Other	47,260	27,060	55,407	28,347
<b>TOTAL REVENUES</b>	<b>1,636,851</b>	<b>1,730,954</b>	<b>1,665,144</b>	<b>(65,809)</b>
<b>EXPENDITURES</b>				
Current:				
Transportation	4,420,613	4,699,977	4,110,014	589,962
Capital outlay	-	-	-	-
<b>TOTAL EXPENDITURES</b>	<b>4,420,613</b>	<b>4,699,977</b>	<b>4,110,014</b>	<b>589,962</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(2,783,762)</b>	<b>(2,969,023)</b>	<b>(2,444,870)</b>	<b>524,153</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	2,783,762	2,978,388	2,444,870	(533,518)
Transfers out	-	(9,365)	-	9,365
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>2,783,762</b>	<b>2,969,023</b>	<b>2,444,870</b>	<b>(524,153)</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>(0)</b>	<b>(0)</b>	<b>(0)</b>	<b>0</b>
<b>FUND BALANCES - BEGINNING</b>	<b>100,000</b>	<b>100,000</b>	<b>100,000</b>	<b>-</b>
<b>FUND BALANCES - ENDING</b>	<b>\$ 100,000</b>	<b>\$ 100,000</b>	<b>\$ 100,000</b>	<b>\$ 0</b>

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

**UTILITY TAX FUND**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**BUDGET AND ACTUAL**  
For Year Ended December 31, 2011

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Taxes	\$ 12,466,000	\$ 12,816,000	\$ 13,068,510	\$ 252,510
Interest	30,000	6,000	3,726	(2,274)
<b>TOTAL REVENUES</b>	<b>12,496,000</b>	<b>12,822,000</b>	<b>13,072,237</b>	<b>250,237</b>
<b>EXPENDITURES</b>				
Current:				
General government	48,000	48,000	48,000	-
<b>TOTAL EXPENDITURES</b>	<b>48,000</b>	<b>48,000</b>	<b>48,000</b>	<b>-</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>12,448,000</b>	<b>12,774,000</b>	<b>13,024,237</b>	<b>250,237</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers out	(12,727,509)	(12,727,509)	(12,563,553)	163,956
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(12,727,509)</b>	<b>(12,727,509)</b>	<b>(12,563,553)</b>	<b>163,956</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>(279,509)</b>	<b>46,491</b>	<b>460,684</b>	<b>414,193</b>
<b>FUND BALANCES - BEGINNING</b>	<b>3,199,666</b>	<b>3,710,180</b>	<b>3,710,184</b>	<b>4</b>
<b>FUND BALANCES - ENDING</b>	<b>\$ 2,920,157</b>	<b>\$ 3,756,671</b>	<b>\$ 4,170,868</b>	<b>\$ 414,196</b>

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

**STATEMENT OF NET ASSETS**  
**PROPRIETARY FUNDS**  
December 31, 2011

	Business-type Activities - Enterprise Funds			Governmental Activities
	Surface Water Management	Dumas Bay Centre	TOTAL	Internal Service
<b>ASSETS</b>				
Current Assets				
Equity in pooled cash & investments	\$ 5,226,459	\$ 253,571	\$ 5,480,030	\$ 16,188,952
Prepaid items	-	-	-	5,000
Receivables (net):				
Accounts and contracts	367,252	20,834	388,086	40,571
Due from other governments	101,018	-	101,018	49,060
<b>TOTAL CURRENT ASSETS</b>	<b>5,694,729</b>	<b>274,406</b>	<b>5,969,134</b>	<b>16,283,583</b>
Property, plant and equipment				
Land	8,200,575	2,109,640	10,310,215	-
Building/structures	19,849	3,581,015	3,600,864	16,497,555
Machinery/furniture/equipment	47,818,768	118,374	47,937,142	15,035,018
Infrastructure	1,916,645	-	1,916,645	-
Construction in progress	2,074,662	378,808	2,453,470	-
Less accumulated depreciation	(12,438,596)	(2,699,180)	(15,137,776)	(15,164,592)
<b>TOTAL NONCURRENT ASSETS</b>	<b>47,591,903</b>	<b>3,488,657</b>	<b>51,080,560</b>	<b>16,367,981</b>
<b>TOTAL ASSETS</b>	<b>53,286,632</b>	<b>3,763,063</b>	<b>57,049,694</b>	<b>32,651,564</b>
<b>LIABILITIES AND FUND EQUITY</b>				
Current Liabilities:				
Vouchers/payroll payable	42,841	17,086	59,927	378,208
Retainage payable - with escrow agent	5,660	-	5,660	-
Due to other governments	16,990	-	16,990	-
Deposits payable	-	5,337	5,337	-
Deferred revenue	317,011	132,299	449,310	-
Public Works Trust Fund loan payable	182,359	-	182,359	-
Compensated absences payable	2,534	-	2,534	-
<b>TOTAL CURRENT LIABILITIES</b>	<b>567,395</b>	<b>154,721</b>	<b>722,116</b>	<b>378,208</b>
Long-term liabilities:				
Public Works Trust Fund loan payable	845,317	-	845,317	-
Compensated absences payable	57,814	18,353	76,167	46,362
<b>TOTAL LONG-TERM LIABILITIES</b>	<b>903,131</b>	<b>18,353</b>	<b>921,484</b>	<b>46,362</b>
<b>TOTAL LIABILITIES</b>	<b>1,470,526</b>	<b>173,074</b>	<b>1,643,600</b>	<b>424,570</b>
Invested in capital assets, net of related debt	46,564,227	3,488,657	50,052,884	16,367,981
Restricted for:				
Customer deposits	-	5,337	5,337	-
Steel Lake & North Lake Mgmt District	13,494	-	13,494	-
Unrestricted	5,238,385	95,994	5,334,380	15,859,013
<b>TOTAL NET ASSETS</b>	<b>\$ 51,816,106</b>	<b>\$ 3,589,988</b>	<b>55,406,095</b>	<b>\$ 32,226,994</b>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds			64,407	
<b>NET ASSETS OF BUSINESS-TYPE ACTIVITIES</b>			<b>\$ 55,470,504</b>	

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

**STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND NET ASSETS  
PROPRIETARY FUNDS**

For Year Ended December 31, 2011

	Business-type Activities - Enterprise Funds			Governmental Activities
	Surface Water Management	Dumas Bay Centre	TOTAL	Internal Service
<b>OPERATING REVENUES:</b>				
Service charges and fees	\$ 3,441,705	\$ 561,709	\$ 4,003,414	\$ 5,618,163
Intergovernmental	265,660	-	265,660	467,216
Miscellaneous	16,730	-	16,730	255,590
<b>TOTAL OPERATING REVENUES</b>	<b>3,724,095</b>	<b>561,709</b>	<b>4,285,804</b>	<b>6,340,969</b>
<b>OPERATING EXPENSES:</b>				
Personal services	1,724,163	312,261	2,036,422	815,231
Materials and supplies	117,242	118,985	236,227	599,218
Services and charges	695,710	230,202	925,912	2,677,920
Intergovernmental	184,328	11,473	195,801	105,774
Depreciation	507,029	181,997	689,026	2,102,287
Interfund charges	289,202	36,021	325,223	-
<b>TOTAL OPERATING EXPENSES</b>	<b>3,517,674</b>	<b>890,939</b>	<b>4,408,611</b>	<b>6,300,430</b>
<b>OPERATING INCOME (LOSS)</b>	<b>206,421</b>	<b>(329,230)</b>	<b>(122,807)</b>	<b>40,538</b>
<b>NON-OPERATING REVENUES (EXPENSES):</b>				
Gain (Loss) from disposal of capital assets	-	-	-	(186,217)
Interest income	11,362	314	11,676	12,405
Interest expense	(12,100)	-	(12,100)	-
<b>TOTAL NON-OPERATING REVENUES (EXPENSES)</b>	<b>(738)</b>	<b>314</b>	<b>(424)</b>	<b>(173,812)</b>
<b>INCOME (LOSS) BEFORE TRANSFERS</b>	<b>205,683</b>	<b>(328,916)</b>	<b>(123,231)</b>	<b>(133,274)</b>
Capital contributions	-	-	-	223,786
Transfers in	846,865	113,000	959,865	13,500
Transfers out	(846,865)	-	(846,865)	(69,300)
<b>CHANGE IN NET ASSETS</b>	<b>205,683</b>	<b>(215,916)</b>	<b>(10,231)</b>	<b>34,712</b>
<b>NET ASSETS - BEGINNING</b>	<b>51,720,675</b>	<b>3,805,905</b>		<b>32,192,281</b>
Prior period adjustment	(110,252)	-		-
<b>ADJUSTED NET ASSETS - BEGINNING</b>	<b>51,610,423</b>	<b>3,805,905</b>		<b>32,192,281</b>
<b>NET ASSETS - ENDING</b>	<b>\$ 51,816,106</b>	<b>\$ 3,589,988</b>		<b>\$ 32,226,994</b>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise			3,112	
<b>CHANGES IN NET ASSETS OF BUSINESS-TYPE ACTIVITIES</b>			<b>\$ (7,119)</b>	

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

**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
For Year Ended December 31, 2011

	Business-type Activities - Enterprise Funds			Governmental Activities
	Surface Water Management	Dumas Bay Centre	TOTAL	Internal Service
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Cash received from users	\$ 3,417,789	\$ 548,380	\$ 3,966,169	\$ 5,966,164
Cash payments to claimants	-	-	-	(820,386)
Cash payments to suppliers for goods/services	(843,660)	(365,840)	(1,209,500)	(1,815,080)
Cash payments to employees	(1,709,407)	(311,478)	(2,020,885)	(817,984)
Cash payments to other funds for goods and services	(289,202)	(36,021)	(325,223)	-
Cash payments to other governments for goods and services	(184,710)	(11,473)	(196,183)	(551,589)
Other operating receipts	326,206	-	326,206	255,589
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>717,016</u>	<u>(176,432)</u>	<u>540,584</u>	<u>2,216,714</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
Transfers in	846,865	113,000	959,865	13,500
Transfers out	(846,865)	-	(846,865)	(69,300)
NET CASH PROVIDED BY NONCAPITAL FINANCING	<u>-</u>	<u>113,000</u>	<u>113,000</u>	<u>(55,800)</u>
<b>CASH FLOWS FROM CAPITAL AND CAPITAL - RELATED FINANCING ACTIVITIES:</b>				
Principal paid on debt service	(182,359)	-	(182,359)	-
Interest paid on debt service	(12,100)	-	(12,100)	-
Acquisition of capital asset/construction work in progress	(94,975)	(11,731)	(106,706)	(1,598,313)
Proceeds from the sale of capital assets	-	-	-	40,473
NET CASH USED FOR CAPITAL AND CAPITAL- RELATED FINANCING ACTIVITIES	<u>(289,434)</u>	<u>(11,731)</u>	<u>(301,165)</u>	<u>(1,557,840)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>				
Receipts of interest	11,362	314	11,676	12,405
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>11,362</u>	<u>314</u>	<u>11,676</u>	<u>12,405</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	438,944	(74,849)	364,095	615,479
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>4,787,512</u>	<u>328,422</u>	<u>5,115,934</u>	<u>15,573,475</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>5,226,459</u></u>	<u><u>253,571</u></u>	<u><u>5,480,030</u></u>	<u><u>16,188,952</u></u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>				
Operating Income/(loss)	206,418	(329,230)	(122,812)	40,539
Adjustments to reconcile operating income to net cash provided/(used) by operating activities:				
Depreciation expenses	507,029	181,997	689,026	2,102,287
(Increases)/decrease in accounts receivable	(82,261)	(806)	(83,067)	(29,741)
(Increases)/decrease in due from other governments	43,816	-	43,816	(21,554)
Increases/(decrease) in vouchers/accounts payable	(31,413)	(17,403)	(48,816)	195,856
Increases/(decrease) in retainage payable	708	-	708	-
Increases/(decrease) in due to other government	(382)	-	(382)	-
Increases/(decrease) in deposits payable	-	750	750	-
Increases/(decrease) in deferred revenue	58,345	(12,523)	45,822	(67,920)
Increases/(decrease) in accrued payroll/compensated absences payable	14,756	783	15,539	(2,753)
TOTAL ADJUSTMENTS	<u>510,598</u>	<u>152,798</u>	<u>663,396</u>	<u>2,176,175</u>
NET CASH PROVIDED/USED BY OPERATING ACTIVITIES	<u>\$ 717,016</u>	<u>\$ (176,432)</u>	<u>\$ 540,584</u>	<u>\$ 2,216,714</u>
<b>Non-cash investing, capital, and financing activities:</b>				
Other contributions of capital assets				<u>\$ 223,786</u>

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

# NOTES TO THE BASIC FINANCIAL STATEMENTS

## December 31, 2011

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
For the Year Ended December 31, 2011**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**REPORTING ENTITIES**

The City's Comprehensive Annual Financial Report (CAFR) includes the funds, agencies and boards controlled by or dependent on the City. In conformance with Governmental Accounting Standards Board (GASB) Statement 14, "The Financial Reporting Entity", the primary basis of determining whether outside agencies and organizations should be considered component units of the City is Financial Accountability. Financial Accountability is dependence on the City's obligation to redeem the organization's debts, to finance the organization's deficits, and the extent to which subsidies from the City constitute a major portion of the organization's total resources. Applying these criteria, as outlined in GASB Statement 14, the City has no relationships that qualify as component units.

**Financial Accountability**

Financial accountability is defined as appointment of a voting majority of an agency's or organization's board, and either the City's ability to impose will on the agency or organization or the possibility that the agency or organization will provide a financial benefit to or impose a financial burden on the City.

**Joint Ventures**

A joint venture is a legal entity or organization which results from a contractual arrangement that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which participants retain an ongoing financial interest or an ongoing financial responsibility. The City participates in two joint ventures: Valley Communications Center and South Correctional Entity (SCORE). See Note 14, Joint Venture, which more fully describes these organizations.

**GOVERNMENTAL-WIDE AND FUND FINANCIAL STATEMENTS**

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

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. Our policy is to allocate indirect costs to 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) grant and contributions that are restricted to meeting the operational or capital requirements or a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues. Separate fund financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

**MEASUREMENT FOCUS, BASIS OF ACCOUNTING, FINANCIAL STATEMENT PRESENTATION**

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

## Governmental Funds

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City of Federal Way considers revenues to be available if they are collected within 30 days of the end of the current fiscal period with an exception to utility and gambling taxes in which is extended to 60 days. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, licenses, and interest associated within the current period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessment receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

### General Fund

This is the City's general operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

### Street Fund

This fund accounts for receipt and disbursement of State-levied motor vehicle fuel taxes which must be accounted for in a separate fund and expended for street-oriented engineering, maintenance and operations.

### Utility Tax Fund

This fund was established to account for all utility tax receipts. These receipts will subsequently be distributed to various funds (Debt Service, Capital Improvement Projects, etc.) for project expenditure as determined by the City Council.

### Debt Service Fund

This fund accounts for the accumulation of resources for the payment of general obligation and assessment bond principal, interest and related costs.

### Downtown Redevelopment CIP Fund

This fund was established to accumulate resources to set aside for downtown projects.

### Transportation CIP Fund

This fund accounts for receipts and disbursements related to acquisition, design, construction and any other related street project expenditures.

The City reports the following fund groups as non-major funds:

### Special Revenue Funds

These funds are to be used to account for the proceeds of revenues and sources (other than special assessments, expendable trust or major capital projects) that are committed or legally restricted to expenditures for specified purposes.

### Capital Project Funds

These funds account for the acquisition or construction of major capital facilities with the exception of those facilities financed by the proprietary and trust funds. The major sources of revenues for this fund are general obligation bond proceeds, grants from other agencies, local taxes and contributions from other funds.

## Proprietary Funds

Proprietary funds are used to account for activities similar to those found in the private sector where the intent of the governing body is to finance the full cost of providing services, including depreciation, primarily through user charges. The measurement focus for these funds is based on the commercial model, which uses a flow of economic resources approach. Under this approach, the operating statements for the proprietary funds focus on a measurement of net income (revenues and expenses) and both current and non-current assets and liabilities are reported on the related balance sheets.

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

As a general rule the effect of the interfund activity has been eliminated for the government-wide financial statements.

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

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise and internal service funds are primarily user charges, the cost of providing goods or services to the general public on a continuing basis. Operating expenses for enterprise funds and internal service funds includes the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The City reports the following major proprietary funds:

### **Enterprise Funds**

The City uses enterprise funds to account for government activities that are financed and operated in a manner similar to private business. Costs of providing services to the general public are primarily financed by user fees.

#### Surface Water Management Fund

This fund was established to administer and account for all receipts and expenditures related to the City's surface and storm water management system.

#### Dumas Bay Centre Fund

This fund was established to account for the revenues and expenses related to the acquisition, capital improvements maintenance and operations of the City-owned Dumas Bay Centre and Knutzen Family Theatre.

### **Internal Service Funds**

The City uses Internal Service Funds to account for the financing of goods or services provided by one department or agency to other departments or agencies of a government, or to other governments, on a cost-reimbursement basis.

A description of each individual Internal Service Fund included in the Comprehensive Annual Financial Report is provided below:

#### Risk Management Fund

This fund accounts for the City's risk financing activities established to minimize adverse effects of losses associated with property and casualty, medical and dental, unemployment and worker's compensation claims. Both risk control (to minimize the losses that strike and organization) and risk financing (to obtain finances to provide for or restore the economic damages of those losses) are involved. The City is currently self-insuring only State Unemployment Compensation. Related premiums received by the fund are used to reimburse the unemployment benefits paid to eligible individuals and to establish reserves for the payment of estimated future unemployment claims liability. The City is also currently recovering costs and building reserves for general liability including property, casualty, errors and omissions and fidelity coverage.

#### Information Systems Fund

This fund was established to account for all costs associated with data processing, telecommunications and the Geographical Information System (GIS). This fund will own and depreciate all non-proprietary fund assets related to these functions, and will charge equipment/software users for both maintenance and operating costs and equipment replacement charges based on depreciation schedules.

#### Support Services Fund

This fund accounts for duplication, graphics and other general support services provided to departments and funds throughout the City.

Fleet and Equipment Fund

This fund accounts for the cost of maintaining City vehicles and other motorized equipment. Rates charged to user departments are based on the full cost of maintaining equipment items, including the recovery of related depreciation expense.

Buildings and Furnishings Fund

This fund accounts for all costs associated with the operation and maintenance of specified City buildings. City building facilities and furnishings will be owned by this Fund, and both maintenance/operating costs and depreciation recovery will be charged City departments and funds.

**Basis of Accounting**

Basis of accounting refers to when revenues and expenditures or expenses are recognized and reported in the financial statements.

The *accrual basis* of accounting is used by proprietary funds. Under this method, revenues are recognized when earned, and expenses are recognized when incurred.

The *modified accrual* basis of accounting is used by governmental funds. Revenues and other financial resources are recognized when they become susceptible to accrual, i.e., when the related funds become both measurable and available to finance expenditures of the current period. To be considered "available", revenue must be collected during the current period or soon enough thereafter to pay current liabilities. The City uses thirty days when evaluating the available criteria.

Expenditures are recognized when the related fund liability is incurred. Since the recognition of depreciation does not reduce net financial resources, it is not considered as expenditure. Other exceptions include (1) inventories of materials and prepaid items are reported as expenditures when purchased, (2) interest on long-term debt is not accrued but is recorded as an expenditure when due, (3) accumulated unpaid vacation and sick pay are considered expenditures when paid.

Major revenues recorded on the modified accrual basis are:

**Property Taxes** - King County acts as the City's collection agent for these taxes. Each day, the County electronically transmits to the City the taxes which it has collected on the City's behalf in the prior day. On this basis, property taxes received in January are considered both measurable and available and are therefore recognized as revenue in the current year.

**Other Locally Levied Taxes** - King County also acts as the City's collection agent for the ¼% and optional ¼% real estate excise taxes. Although a time lag occurs in payment of these taxes to the City, since the taxes are actually collected by King County in December and receipted to the City within 10 days after the end of the year, they are considered to be both measurable and available, and are, therefore, accrued as revenue at year end. The State of Washington acts as the City's collection agency for the locally levied sales tax. The sales tax is distributed monthly and remitted to the City in the following month. The Sales Tax remittance in January is considered both measurable and available and is therefore accrued as revenue at year-end.

**Grant Revenues** - Under Section G60.109 of the Codification of Governmental Accounting and Financial Reporting Standards, revenues for cost reimbursement grants are determined to be earned and, therefore, available at the time related expenditures are incurred. For this reason, grant revenues to be received as reimbursement for expenditures incurred in the current year are also recognized as revenue in that year.

**Shared Revenues** - Revenues that have been collected, but not remitted by an intermediary collection agency to the City, are considered measurable and available.

**Other Revenue Sources** - Other items recognized as revenue in the current year on the modified accrual basis include investment interest earned but not received at year end; interfund, and intergovernmental service billings related to services provided in the current year which are outstanding at year end; and any other material revenue amounts determined to be both measurable and available under current modified accrual accounting practices.

Revenues not considered to meet the criteria for recognition on the modified accrual basis include licenses and permits, fines and forfeitures, and other miscellaneous revenues which are generally not measurable until received.

## FINANCIAL STATEMENT PRESENTATION

In order to obtain an understanding of changes in the City's position and the results of the City's operations, the financial statements for year end of 2011 should be read in conjunction with the government's financial statements for the year ended December 31, 2010.

## BUDGETARY INFORMATION

### Scope of Budget

Annual appropriated budgets are adopted for the general, some special revenue, and debt service funds on the modified accrual basis of accounting. For governmental funds, there are no differences between the budgetary basis and generally accepted accounting principles. Budgets for project and grant related special revenue funds and capital project funds are adopted at the level of the individual project and for fiscal periods that correspond to the lives of projects. Since these funds are not budgeted on an annual basis, budgetary comparisons are not presented. NCGA Statement 1 does not require, and the financial statements do not present, budgetary comparisons for proprietary fund types.

Legal budgetary control is established at the fund level, i.e., expenditures for a fund may not exceed the total appropriation amount. Any unexpended appropriation balances for annually budgeted funds lapse at the end of the year. Appropriations for other special purpose funds that are non-operating in nature are adopted on a "project-length" basis and, therefore, are carried forward from year to year without reappropriation until authorized amounts are fully expended or the designated purpose of the fund has been accomplished.

The individual funds within each fund type which are included in the City's annual operating budget (funds budgeted on an annual basis) are:

General Fund  
Special Revenue Funds  
    *Street Fund*  
    *Arterial Street*  
    *Utility Tax*  
    *Solid Waste & Recycling*  
    *Federal Way Community Center*  
    *Traffic Safety*  
    *Hotel/Motel Lodging Tax*  
    *Paths & Trails*  
Debt Service Fund

### Procedures for Adopting the Biennial Budget

The City's budget process and the time limits under which the budget must be prepared are defined by the Revised Code of Washington (RCW) 35A.33. The procedures followed in establishing the annual budget are described below:

- By late May the official budget call is made by the Finance Director for current level service budgets and a preliminary financial forecast.
- By late June, departments submit their preliminary expenditure estimates and the Finance department updates the preliminary revenue estimates to define resources available to finance coming year expenditure programs.
- Prior to the first Tuesday in September, the Mayor submits a proposed budget to the City Council. This budget is based on priorities established by the Council and estimates provided by City departments during the preceding months, and balanced with revenue estimates made by the Finance Director.
- City Council conducts workshops and public hearings on the proposed budget between mid-September and mid-December.
- No later than the third Monday in November, the City Council must adopt an ordinance to establish the amount of property taxes to be levied in the coming year.
- By October 31, the Mayor files a preliminary budget with the City Clerk. Copies of the preliminary budget are provided to staff and the City Council and made available to the public.

- During the first two weeks of November, the City Clerk publishes a notice of the filing of the preliminary budget and notices of public hearings to be held during preliminary budget deliberations.
- Two public hearings on the proposed budget are also held during November and December. Final hearings on the budget must begin on or before the first Monday of December, and may continue until the 25th day prior to beginning of the next fiscal year.
- By December 31, the City Council makes its adjustments to the proposed budget and adopts a final budget by ordinance.
- The final operating budget, as adopted, is published and distributed within the first three months of the following year. Copies of the adopted budget are made available to the public.

### **Amending the Budget**

The Mayor is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of a fund must be approved by the City Council.

When the City Council determines that it is in the best interest of the City to increase or decrease the appropriation for a particular fund, it may do so by ordinance approved by a simple majority. During 2011, the budget was amended two times.

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

### **Encumbrances**

An encumbrance system is used for budgetary control purposes to record commitments resulting from approved purchase orders. During the year, encumbrances are recorded in the accounting system at the time purchase orders are issued for goods and services. Upon payment, the encumbrance is reversed and the actual cost of the related item is recorded as a fund expenditure. Outstanding encumbrances lapse at year end, are canceled and rolled over to the next fiscal year. Therefore, these amounts have not been recorded as current year expenditures unless considered to be susceptible to accrual at the end of the year. The total encumbrances at year-end for the City were \$9,658,769.

## **ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY**

### **Cash and Investments**

The City follows the practice of pooling cash and investments of all funds for investment purposes, except for cash held in escrow, which is disclosed separately on the balance sheet. Each fund's portion of total cash and investments is summarized by fund type in the combined balance sheet as equity in pooled cash and investments.

It is the City's policy to invest all cash not immediately required for disbursement. At December 31, 2011, the State Treasurer was holding \$40,290,229 in the State Investment Pool. The State Investment Pool is considered a cash equivalent. The interest earnings on these investments are allocated to all funds based on the average monthly balance for each fund.

For purposes of the Statement of Cash Flows, the City considers all highly liquid investments with a maturity of three months or less when purchased, to be cash equivalents. At December 31, 2011, the total cash and cash equivalents were \$63,559,028.

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

The City is authorized by State law to purchase certificates of deposit issued by Washington State depositories that participate in a state insurance pool managed by the Washington Public Deposit Protection Commission; securities purchased by the Washington State Investment Pool; U.S. Treasury and Agency securities, banker's acceptances trading in the secondary market; and repurchase agreements with dealers that use authorized securities as collateral.

In accordance with GASB 31, investments in money market investments and participating interest-earning investment contracts with a remaining maturity of one year or less at the time of purchase are stated at amortized cost. All other investments are stated at fair value. There was no material deviation from fair value quoted at year-end.

### **Receivables**

Taxes receivable consists of property taxes and related interest and penalties (see Property Tax Note 6). Accrued interest receivable consists of amounts earned on investments, notes, and contracts at the end of the year.

Due From Other Governments reflects measurable and available intergovernmental grants, entitlements, or State shared revenues (taxes/charges levied and collected by an intermediary collecting government and distributed on some basis); loans; and charges for services rendered by the City for another government unit. A separate schedule of Due From Other Governments is disclosed in Note 6.

### **Amounts Due to and from Other Funds; Interfund Loans**

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

Loans between funds must be authorized by the Mayor. In the governmental funds, loans to other funds are offset by a corresponding reservation of fund balance to indicate that the outstanding loan amounts do not constitute "available spendable resources" and are, therefore, not available for appropriation. A separate schedule of interfund loans receivable and payable is furnished in Note 12.

### **Inventories**

Inventories in the governmental funds are recorded as expenditures at the time of purchase. Amounts remaining at year-end are immaterial and, therefore, are not reflected on the balance sheets of those funds. There were no material inventories at year-end in the Internal Service or Enterprise Funds.

### **Capital Assets**

Capital assets, which include property, plant, equipment, and infrastructure, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements.

Pursuant to GASB Statement 34, the City included capitalized retroactive infrastructure assets owned prior to 2003, such as roads, bridges, curbs and gutters, streets and sidewalks, bridges, and lighting systems, in the year end 2007 financial statement. The City compiled an inventory of the retroactive infrastructure and recorded these capital assets for yearend 2007. The City inventoried current infrastructure assets; performed a condition assessment on the infrastructure assets and summarized the results using a measurement scale. To arrive at the retroactive infrastructure assets value, the City used a deflationary factor of the change from the City's assessed value during 1990 through 2006 and multiplied this factor to the infrastructure to determine the historical cost. The City elected to capitalize all infrastructure assets including pre- 1990 assets when the City incorporated from unincorporated King County. The City has determined that this method would accurately reflect capital assets. Infrastructure is the largest asset class of the City and has historically not been reflected nor a measure of its consumption been charged.

Major expenditures for capital assets, including capital leases and major repairs that increase useful lives are capitalized. Maintenance, repairs, and minor renewals are accounted for as expenditures or expenses when incurred. The City has adopted a general capital asset capitalization policy where an item's cost must equal or exceed \$1,000. All capital assets are valued at historical cost (or estimated cost, where historical cost is not known/or estimated market value for donated assets).

Depreciation on all capital assets is recorded as an allocated expense in the government-wide Statement of Activities and in the proprietary fund statements. Capital assets are reported net of depreciation. The City uses a combination of group depreciation and straight-line depreciation over the life of the assets.

The following summarizes the average service lives used to calculate depreciation for specific categories of assets in the City's Assets:

<u>Asset Class</u>	<u>Life in Years</u>
Computers.....	5-6
Printers & Faxes.....	7
Telecommunications Equipment.....	7
Police Radio Equipment.....	11
Other Office Equipment.....	4-10
Office Furniture and Fixtures.....	10
Recreation Equipment.....	10
Parks Equipment.....	6-10
Police Equipment.....	9-11
Shop/Miscellaneous Equipment.....	10-12
Heavy Work Equipment.....	10-16
Non-Police Vehicles.....	7
Police Patrol Vehicles.....	5
Police Non-Patrol Vehicles.....	7-10
Heavy Trucks.....	8-10
Land Improvements.....	20
Buildings.....	20
Storm Drainage Systems.....	20
Infrastructure.....	15-100

**Compensated Absences**

The City records a liability for all outstanding vacation pay and accrued compensatory time. In governmental funds, vacation pay and compensatory time is recorded as expenditures when paid which occurs when used or upon termination. In the entity-wide statements and the proprietary fund statements, vacation pay and compensatory time is recorded as a liability and expense in the year earned.

Employee vacation leave is accumulated monthly at rates ranging from 12 to 22.5 days per year depending on term of employment. Employees may accumulate up to a maximum of 240 hours of vacation leave, except the Police Guild, who can accrue up to a maximum of 360 hours. Outstanding vacation leave is payable upon termination of employment at the following rate: City Employees up to 240 hours and Police Guild members is at two years of their accrued rate at the time of termination.

The differences between the governmental fund statements and the entity-wide statements represent reconciling items between the fund level and government-wide financial statements. The reconciliations are included as part of the financial statements.

A non-exempt employee may request compensatory time off in lieu of overtime payment. Compensatory time is accrued at a rate of one and one-half hours for each hour of overtime worked, to a maximum of eighty hours for both City employees and Police Guild members.

Sick leave may be accumulated up to a maximum of 720 hours for regular City employees per City policy and 1,040 hours for the Police Guild, per their contract. The monthly accrual rate for City employees is 8 hours per month. Accumulated sick leave is not payable upon termination of employment. Outstanding sick leave at year-end is not accrued due to the difficulty in estimating the portion of existing balances likely to result in expenditures in future periods.

**Long-term Liabilities**

In the government-wide financial statements and the proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statement of net assets. Long-term debt outstanding at year-end is outlined in Note 11.

## Deferred Revenues

The deferred revenue account is used to offset receivables established in the governmental funds for certain revenues that are measurable but not considered available to finance payment of current obligations and, therefore, are not susceptible to accrual on the modified accrual basis. When the receivable amounts are collected in future periods, this liability account is reduced and corresponding revenue is recorded. The portions of Property Taxes that do not meet the available criteria are recorded as deferred revenue.

## Fund Balance Classification

2011 Fund Balance Classification								
Fund Balance	General Fund	Street	Utility Tax	Debt Service	Downtown Redevelop.	Transportation	Nonmajor Gov't	Total
<i>Nonspendable:</i>								
Court trust	\$ 86,403	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 86,403
Prepaid insurance/debt service	17,609	-	-	-	-	-	-	17,609
<i>Restricted for:</i>								
Police covert/seizure	145,524	-	-	-	-	-	-	145,524
Future debt payments	-	-	-	3,866,184	-	-	-	3,866,184
Special Contracts/Studies	-	-	-	-	-	-	556,753	556,753
Hotel/Motel Lodging Tax	-	-	-	-	-	-	213,484	213,484
Path & Trails Reserves	-	-	-	-	-	-	151,807	151,807
Community Development Block Grant	-	-	-	-	-	-	48,712	48,712
Downtown Redevelopment - REET	-	-	-	-	2,023,299	-	-	2,023,299
City Facilities CIP - REET	-	-	-	-	-	-	848,727	848,727
Parks CIP - REET/Mitigation/Donation/Path & Trails	-	-	-	-	-	-	2,043,166	2,043,166
Transportation CIP - REET/Mitigation/Gas Tax	-	-	-	-	-	9,573,357	-	9,573,357
<i>Committed to:</i>								
Capital, debt, and other maintenance/operations	-	-	3,326,822	-	-	-	-	3,326,822
Petty cash/advance travel	21,600	-	-	-	-	-	-	21,600
Proposition 1	-	-	844,045	-	-	-	-	844,045
Transportation CIP	-	-	-	-	-	4,236,320	-	4,236,320
Downtown Redevelopment	-	-	-	-	183,752	-	-	183,752
City Facilities CIP	-	-	-	-	-	-	436,882	436,882
Arterial Street	-	-	-	-	-	-	469,704	469,704
Solid Waste/Recycling	-	-	-	-	-	-	153,980	153,980
2% for the Arts	293	-	-	-	-	-	-	293
Federal Way Community Center	-	-	-	-	-	-	967,943	967,943
Traffic Safety	-	-	-	-	-	-	557,077	557,077
Snow/ice removal	-	100,000	-	-	-	-	-	100,000
Parks CIP	-	-	-	-	-	-	365,723	365,723
<i>Unassigned:</i>								
General Fund	12,372,719	-	-	-	-	-	-	12,372,719
<b>Total Fund Balance:</b>	<b>\$ 12,644,148</b>	<b>\$ 100,000</b>	<b>\$ 4,170,868</b>	<b>\$ 3,866,184</b>	<b>\$ 2,207,051</b>	<b>\$ 13,809,677</b>	<b>\$ 6,813,957</b>	<b>\$ 43,611,884</b>

Fund balance is a measurement of available financial resources and is the difference between total assets and total liabilities in each fund.

Beginning with the most restrictive constraints, fund balance amounts will be reported in the following categories:

*Nonspendable* – amounts that are not in a spendable form or are legally or contractually required to be maintained.

*Restricted* – amounts that can be spent only for the specific purposes stipulated by external parties either constitutionally or through enabling legislation.

*Committed* – amounts that can be used only for the specific purposes determined by formal action of the City Council. Commitments may be changed or lifted by referring to the formal action that imposed the constraint originally.

*Assigned* – amounts *intended* to be used by the government for specific purposes. Intent can be expressed by the City Council or the Mayor. In governmental funds other than the general fund, assigned fund balance represents the amount that is not restricted or committed. This indicates that resources in other government funds, at a minimum, are intended to be used for the purpose of that fund.

*Unassigned* – includes all amounts not contained in other classifications and is the residual classification of the general fund only. Unassigned amounts are available for any legal purpose.

The responsibility for designating funds to specific classifications shall be as follows:

*Committed Fund Balance* – The City Council is the highest level of decision-making authority, and the formal action that is required to be taken to establish, modify, or rescind a fund balance commitment is established by ordinance approved by the Council.

When multiple categories of fund balance are available for expenditure, the City will start with the most restricted category and spend those funds first before moving down to the next category with available funds.

### Interfund Transactions

There are four types of transactions between funds - interfund loans, interfund services provided and used, interfund reimbursements, and interfund transfers. Interfund loans are temporary borrowings of cash which do not affect operating statements, but which may incur interest expense or expenditure to the borrowing fund. Interfund services provided and used are equivalent to buying goods or services from an outside vendor, they are accounted for by the related funds as revenues, expenditures or expenses. Interfund reimbursements are repayments to a fund for expenditures or expenses that belong to another fund. They involve only expenditure or expense accounts.

Except for the Enterprise Fund, transfers are accounted for as "other financing sources and uses" and are therefore included in the operating statements.

## NOTE 2 – RECONCILIATION OF GOVERNMENT-WIDE & FUND FINANCIAL STATEMENTS

### Explanation of Certain Differences Between the Governmental Funds Balance Sheet and the Government-Wide Statement of Net Assets

The governmental funds' balance sheet includes reconciliation between *fund balance – total governmental funds and net assets – governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains that "long-term liabilities, including bonds payable, are not due and payable in the current period, and, therefore, are not reported in the funds." The details of this \$29,731,230 difference are as follows:

Bonds Payable at beginning of year	\$ 28,683,950
Plus: Inclusion of compensated absences	1,573,280
Less: Current year reduction of principal portion of debt	<u>(526,000)</u>
Net Adjustment to reduce fund balance-total governmental funds to arrive at net assets - governmental activities	<u>\$ 29,731,230</u>

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

The governmental funds' statement of revenues, expenditure, and changes in fund balances includes reconciliation between *net changes in fund balances – total governmental funds and changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that "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." The details of this \$6,553,575 difference are as follows:

Capital outlay	\$ 11,481,732
Less: Governmental depreciation expense	(6,017,826)
Plus: Increase investment in joint venture	<u>1,089,669</u>
Net adjustment o increase net changes in fund balances - Total governmental funds to arrive at changes in net assets of governmental activities	<u>\$ 6,553,575</u>

Another element of the reconciliation states that "Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds." This item presents:

Property taxes earned reported as deferred in the fund statements	<u>\$ 22,379</u>
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Another element of the reconciliation states that “Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the funds.” This item represents:

Compensated absences      \$    (43,396)

### NOTE 3 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

There have been no material violations of finance-related legal or contractual provisions, and there have been no expenditures exceeding legal appropriations in any of the funds of the City.

### NOTE 4 – SUPPLEMENTAL APPROPRIATIONS

#### Operating Budget Funds

Appropriations established during 2011 for the City's operating budget funds are provided below. As explained in Note 1, both original and supplemental appropriations are adopted by the City Council by ordinance. Both original and final budget appropriations are shown on the accompanying financial statements. The final budget values include all adopted adjustments to original budget amounts.

FUND	2011		
	ORIGINAL BUDGET	SUPPLEMENTAL APPROPRIATIONS	FINAL BUDGET
<i>General Fund</i>	\$ 43,752,800	\$ 662,442	\$ 44,415,242
<i>Special Revenue Funds:</i>			
Street Fund	4,420,612	288,728	4,709,340
Arterial Street Fund	1,513,500	881,374	2,394,874
Utility Tax Fund	12,775,508	-	12,775,508
Solid Waste/Recycling Fund	415,118	15,000	430,118
Hotel/Motel Lodging Tax	160,300	212,200	372,500
Federal Way Community Center	2,142,839	8,883	2,151,722
Traffic Safety	1,205,000	50,000	1,255,000
<i>Subtotal Special Revenue Funds:</i>	22,632,877	1,456,185	24,089,062
<i>Debt Service Fund</i>	2,082,726	-	2,082,726
<b>Total:</b>	<b>68,468,403</b>	<b>2,118,627</b>	<b>70,587,030</b>

### NOTE 5 – DEPOSITS AND INVESTMENTS

As required by state law, all deposits and investments of the City's funds are obligations of the U.S. Government, the State Treasurer's Investment Pool, bankers' acceptances, or deposits with Washington State banks and savings and loan institutions. In 2011 the City utilized all the above with the exception of bankers' acceptances as legal authorized investment instruments. The City's investment policies are described in Note 1.

#### Cash and Deposits

The City follows the practice of pooling cash and investments of all funds, except restricted funds and funds held with a trustee or in escrow, for investment purposes as disclosed in Note 1. At December 31, 2011, the equity in pooled cash and investments was \$63,559,028.

At year-end, the City had \$63,552,106 in cash and cash equivalents which consisted of investments with the State Pool of \$40,290,229 the City's checking account bank balance prior to outstanding checks was \$23,126,764; and petty cash and change funds, advance travel fund and investigative fund totaling \$48,710, and Court Trust of \$86,403. No deposits were uninsured or uncollateralized. Insurance coverage up to \$250,000 is through federal depository insurance and the

Washington Public Deposit Protection Commission (WPDPC) for amounts over \$250,000. Under State statute, members of WPDPC, a multiple-financial institution collateral pool, may be assessed on a prorated basis if the pool's collateral is insufficient to cover a loss. Investments are carried at cost or book value because the City holds all investments until maturity. The fair value of the positions in the State Investment Pool is the same as the value of the pool shares. The State Investment Pool is managed by the Treasurer of the State of Washington.

As of December 31, 2011 the City had the following investments and maturities:

Investment Type	Book Value	Investment maturities		
		Less than 1 year	1 to 2 years	Greater than 3 years
State Investment Pool	\$ 40,290,229	\$ 40,290,229	\$ -	\$ -
	\$ 40,290,229	\$ 40,290,229	\$ -	\$ -
<b>Reconciliation of Government-Wide Statement of Net Assets:</b>				
Bank of America checking account per books		\$ 23,126,764		
Petty cash/change fund/advance travel/investigative fund		48,710		
State Investment Pool		40,290,229		
Municipal Court Trust on books		86,403		
Subtotal cash and cash equivalents		63,552,106		
Cash with escrow agent		6,922		
Total cash and investments, Government-Wide				
<b>Statement of Net Assets</b>		<b>\$ 63,559,028</b>		

## Investments

### Interest Rate Risk

As a means of limiting its exposure to fair value losses arising from rising interest rate, the City's investments policy states that "no more than 20% of the portfolio may be invested beyond 12 months, and average maturity of the portfolio may not exceed 2 years."

### Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.

State law and the City's investment policy limits the instruments in which the City may invest. The following are categories of investments authorized under the City's policy, in general order of safety and liquidity: State Investment Pool; repurchase agreements; U.S. treasury obligations; U.S. government agencies; U.S. government-sponsored corporations/instrumentalities; bankers' acceptances (secondary market domestic and foreign); commercial paper (secondary market); insured certificates of deposit (banks and savings & loans); and uninsured/collateralized certificates of deposit (banks and savings & loans).

The credit risk of the State Investment Pool is limited to obligations of the US Government, government sponsored enterprises, or insured demand deposit accounts and certificates of deposit.

As of December 31, 2011, all City investments were in the State Local Government Investment Pool. The State Investment Pool ratings for Long Term Bonds are as follows: Fitch Investors Service, Inc. AA+, Moody's Investors Services Aa1, and Standard & Poor's Ratings AA+.

### 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 5% of the portfolio may be invested in the securities of a single issuer, except for the U.S. Treasury, to which no limits apply, and commercial paper, which is limited to 3% of the portfolio. No more than 30% of the portfolio may be invested in Bankers' Acceptances and Certificates of Deposit."

Other Information

Below is a schedule of investments by fund type:

<b>SCHEDULE OF INVESTMENTS BY FUND CATEGORY AND INVESTMENT TYPE AS OF DECEMBER 31, 2011</b>			
<b>Fund Type</b>	<b>State Investment</b>		<b>Total</b>
	<b>Pool</b>		
General Fund	\$	8,020,483	\$ 8,020,483
Special Revenue Funds		6,773,955	6,773,955
Capital Projects Funds		13,611,255	13,611,255
Enterprise Funds		1,613,328	1,613,328
Internal Services Funds		10,271,208	10,271,208
<b>Total:</b>	<b>\$</b>	<b>40,290,229</b>	<b>\$ 40,290,229</b>

**NOTE 6 – RECEIVABLES AND DUE FROM OTHER GOVERNMENTS****Property Taxes**

The King County Treasurer is responsible for collecting property taxes levied in the County by all taxing districts. Amounts collected by the County on the City's behalf are remitted daily.

As described in Note 1, taxes are levied and become an enforceable lien against properties as of January 1. Annual tax billings may be paid in two equal installments, due April 30 and October 31. At December 31, 2011, the total balance of property taxes receivable recorded by the City was \$468,600. Of this, \$402,200 is recorded as deferred revenue, since it was not collected within the first 30 days of 2012. The property tax levy calendar in 2011 was:

**PROPERTY TAX CALENDAR**

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

Property taxes are recorded as a receivable when levied, offset by deferred revenue. During the year, property tax revenues are recognized when cash is collected. At year-end, property tax revenues are recognized for collections expected to occur within 30 days. No allowance for uncollectible taxes is established because delinquent taxes are considered fully collectible.

Under State law, the maximum levy (for general governmental services) is up to \$3.60 per \$1,000 of assessed valuation, subject to two limitations, set forth below. Since the City of Federal Way is not a full service city, the City is only allowed \$1.64. The remaining \$1.96 is for the fire district (\$1.39) and library district (\$0.57).

1. Chapter 84.55 of the State RCW was amended most recently by Initiative No. 747 (which was passed by voters on November 6, 2001), limits the total dollar amount of regular property taxes levied by the City to the amount of such taxes levied in the three most recent years multiplied by a limit factor, plus an adjustment to account for taxes on new construction, improvements and state-assessed property at the previous year's rate. As amended by Initiative No. 747, the limit factor is the lesser of 101% or 100% plus the percent change in the Implicit Price Deflator, unless a greater amount is approved by a simple majority of the voters; and
2. The Washington State Constitution limits the total regular property taxes to 1% of assessed valuation or \$10 per \$1,000 of value. If the taxes of all districts exceed this amount, each is proportionately reduced until the total is at or below the 1% limit.

The City's regular levy for 2011 was \$1.19750 per \$1,000 on an assessed valuation of \$8,268,335,786 for a total regular levy of \$9,827,398.

**Deferred Revenue**

Deferred revenue reported on the governmental funds balance sheet is in the schedule below. Grant reimbursements and refuse collection fees are receivable within one year of the end of the fiscal period.

<b>DEFERRED REVENUE AS OF DECEMBER 31, 2011</b>								
<b>Deferred Revenue</b>	<b>General</b>	<b>Street</b>	<b>Downtown Redevelopment</b>	<b>Debt Service</b>	<b>Nonmajor Gov't</b>	<b>Proprietary</b>	<b>Total</b>	
Property tax	\$401,984	\$ -	\$ 216	\$ -	\$ -	\$ -	\$ -	\$ 402,200
SWM fees	-	-	-	-	-	317,011	-	317,011
King County New Solution Grant	3,821	-	-	-	-	-	-	3,821
Commute Trip Reduction Grant	-	65,066	-	-	-	-	-	65,066
Federal Way Fire Department Buy-In of ValleyCom	-	-	-	127,200	-	-	-	127,200
Recreation programs/facility rentals	41,109	-	-	-	110,116	132,299	-	283,524
<b>Total by Fund:</b>	<b>446,913</b>	<b>65,066</b>	<b>216</b>	<b>127,200</b>	<b>110,116</b>	<b>449,310</b>	<b>1,198,822</b>	

**Receivables & Due from Other Governments**

The receivables for the fiscal year ended December 31, 2011 on the government-wide statement of net assets are detailed in the following schedule.

<b>RECEIVABLES &amp; DUE FROM OTHER GOVERNMENTS AS OF DECEMBER 31, 2011</b>									
<b>Receivable</b>	<b>General</b>	<b>Street</b>	<b>Utility Tax</b>	<b>Debt Service</b>	<b>Downtown Redevelopment</b>	<b>Transport- ation</b>	<b>Nonmajor Gov't</b>	<b>Proprietary</b>	<b>Total</b>
Property tax	\$ 468,332	\$ -	\$ -	\$ -	\$ 268	\$ -	\$ -	\$ -	\$ 468,600
Real Estate Excise tax	-	-	-	84,734	-	-	-	-	84,734
Utility tax	-	-	1,466,984	-	-	-	-	-	1,466,984
Gambling tax	97,781	-	-	-	-	-	-	-	97,781
Recreation programs/ facilities	(14,025)	-	-	-	-	-	89,669	20,834	96,478
Grants & contributions	450,081	13,182	-	-	-	1,595,885	77,265	190,649	2,327,062
Other receivable	-	7,000	-	-	-	-	-	-	7,000
State Shared revenue	1,215,572	74,062	2,674	-	-	22,114	47,530	-	1,361,953
Surface Water Management fees	-	-	-	-	-	-	-	367,252	367,252
<b>Total by Fund:</b>	<b>\$ 2,217,741</b>	<b>\$ 94,244</b>	<b>\$ 1,469,658</b>	<b>\$ 84,734</b>	<b>\$ 268</b>	<b>\$ 1,617,999</b>	<b>\$ 214,464</b>	<b>\$ 578,735</b>	<b>\$ 6,277,844</b>

**NOTE 7 – DUE TO OTHER GOVERNMENTS**

At December 31, 2011, the City recorded \$140,237 as due to other governmental units as follows:

<b>DUE TO OTHER GOVERNMENT AS OF DECEMBER 31, 2011</b>	
	General Fund
King County - December 2011 jail services	\$ 10,747
King County - 2011 primary/general election cost	\$ 112,500
<b>Total Governmental Activities</b>	<b>\$ 123,247</b>
	Surface Water Mgmt.
King County - SWM collection fee	\$ 16,990
<b>Total Business-Type Activities</b>	<b>\$ 16,990</b>

**NOTE 8 – CAPITAL ASSETS**

Governmental Activity deletion of \$5,586,182 includes \$2,387,494 for impairment loss due to construction stoppage for Downtown Park, Camp Kilworth, Planning Fee Study, South 320<sup>th</sup> Street @ 1<sup>st</sup> Avenue South, and I-5City Center Access Study. Capital assets activity for the year ended December 31, 2011 was as follows:

<b>CAPITAL ASSETS AS OF DECEMBER 31, 2011</b>				
<b>Governmental Activity</b>	<b>Beginning Balance 1/1/2011</b>	<b>Additions</b>	<b>Deletions</b>	<b>Ending Balance 12/31/2011</b>
Capital Assets, not being depreciated:				
Land	\$ 301,270,211	\$ 898,006	\$ -	\$ 302,168,217
Construction in progress	15,298,641	11,445,599	(5,586,182)	21,158,058
Total capital assets, not being depreciated:	316,568,852	12,343,605	(5,586,182)	323,326,275
Capital assets, being depreciated:				
Buildings	16,698,395	648,316	(197,692)	17,149,019
Improvements other than buildings	43,264,217	601,363	-	43,865,580
Infrastructure	143,187,237	3,976,317	-	147,163,554
Machinery & equipment	14,713,673	1,328,904	(823,559)	15,219,018
Total capital assets, being depreciated:	217,863,522	6,554,900	(1,021,251)	223,397,171
Less accumulated depreciation for:				
Buildings	(4,797,631)	(884,127)	68,883	(5,612,875)
Improvements other than buildings	(12,766,566)	(2,163,211)	-	(14,929,777)
Infrastructure	(29,475,841)	(3,829,373)	-	(33,305,214)
Machinery & equipment	(9,624,461)	(1,243,402)	717,186	(10,150,677)
Total accumulated depreciation:	(56,664,499)	(8,120,113)	786,069	(63,998,543)
Total assets being depreciated, net	161,199,023	(1,565,213)	(235,182)	159,398,628
<b>Governmental activities capital assets, net</b>	<b>\$ 477,767,876</b>	<b>\$ 10,778,392</b>	<b>\$ (5,821,364)</b>	<b>\$ 482,724,904</b>

<b>Business-Type Activities</b>	<b>Beginning Balance 1/1/2011</b>	<b>Additions</b>	<b>Deletions</b>	<b>Ending Balance 12/31/2011</b>
Capital Assets, not being depreciated:				
Land	\$ 10,307,661	\$ 2,554	\$ -	\$ 10,310,215
Construction in progress	2,365,472	92,421	(4,423)	2,453,470
Total capital assets, not being depreciated:	12,673,133	94,975	(4,423)	12,763,685
Capital assets, being depreciated:				
Buildings	3,596,441	4,423	-	3,600,864
Improvements other than buildings	47,818,768	-	-	47,818,768
Infrastructure	1,916,645	-	-	1,916,645
Machinery & equipment	106,643	11,731	-	118,374
Total capital assets, being depreciated:	53,438,497	16,154	-	53,454,651
Less accumulated depreciation for:				
Buildings	(2,438,349)	(181,631)	-	(2,619,980)
Improvements other than buildings	(11,843,453)	(485,283)	-	(12,328,736)
Infrastructure	(81,476)	(19,166)	-	(100,642)
Machinery & equipment	(85,472)	(2,946)	-	(88,418)
Total accumulated depreciation:	(14,448,750)	(689,026)	-	(15,137,776)
Total assets being depreciated, net	38,989,747	(672,872)	-	38,316,875
<b>Business-Type activities capital assets, net</b>	<b>\$ 51,662,879</b>	<b>\$ (577,897)</b>	<b>\$ (4,423)</b>	<b>\$ 51,080,559</b>

At the end of 2011, 40 projects comprise the Construction in Progress for Governmental Activities. Upon completion, the projects will be capitalized in the Government-wide statements in their appropriate categories. Construction commitments for Governmental Activities as of December 31, 2011, are as follows:

<b>CAPITAL COMMITMENTS AS OF DECEMBER 31, 2011</b>		
<b>Governmental Activities Projects</b>	<b>Construction in progress</b>	<b>Remaining Commitment</b>
Downtown Redevelopment	\$ 279,919	\$ -
Community Center	-	478,549
Major Facility Rehabilitation	231,109	56,702
Performing Arts Center	90,253	750,068
Regional Park Development	300,666	-
Down Town Park	-	96,050
Parks - Playgrounds	-	292,232
Lakota Park	161,498	5,414
Hylebos Boardwalk Replacement	1,361,310	28,201
Sacajawea Park Masterplan	47,382	701,120
Trail and pedestrian access improvements	3,255	825,679
Planning Fee Study/Open space Mgmt plan	-	2,315
Laurelwood	35,344	167,100
Celebration Park Maintenance Building	-	71,583
Annual Transportation System Safety Improvements	-	1,290,875
So 348th St @ 1st Ave South Turn Lanes	2,361,367	835,333
S 320th St @ 20th Ave South	48,711	598,819
SW 312th ST @ SR509	46,769	339,106
S 320th St-8th Ave S-SR99	-	97,665
10th Avenue SW / SW 344th St: SW Campus Drive - 21st Ave SW	183,112	135,258
1st Ave South & South 28th Intersection	-	30,761
S 352nd Street Extension From SR-99 to SR-161	452,008	5,218,076
S 320th St SW at 21st Ave SW	-	24,526
S 320th St: 1st Ave to 8th Ave S	-	38,871
S 304th St @ 28th Ave S	-	16,991
South 320th st @ 1-5 southbound ramp	2,679,511	2,568,956
South 356th St: SR99 - SR161	145	97,161
SR99 HOV Lanes Phase 4	12,166,650	2,833,436
South 312th St @ 28th Ave South	-	7,937
Military Rd S: S Star Lake Rd - S 288th St	-	10,563
SW 320th St @ 47th Ave SW	-	1,111
SW 336th Way / SW 340th St: 26th Pl SW - Hoyt Rd	40,316	41,575
21ST AVE SW @ SW 336TH ST	326,694	4,556,929
Citywide Flashing Yellow Lights Installation	100,095	42,804
SR 99 @ S 312th St	-	63,061
SW 344th St: 12th Ave SW - 21st Ave SW	-	1,753
Citywide Pedestrian Crossing Improvements	-	42,094
S 344th Way @ Weyerhaeuser Way S	201,524	830,901
Mrk Twain Elementary Safe Route to School Impr	14,939	371,118
SW 312th St & 14th Ave SW Lakota Safe Rt to School Imp	25,477	832,125
<b>Total governmental activities</b>	<b>\$ 21,158,058</b>	<b>\$ 24,402,818</b>

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

<b>Governmental and Internal Service Activities</b>	
General government	\$ 354,672
Security of persons & property	1,226,115
Transportation	4,018,168
Physical environment	26,449
Economic environment	118,143
Health	31,338
Culture & recreation	2,345,229
<b>Total Depreciation - Governmental Activities</b>	<b>\$ 8,120,113</b>
<b>Business-Type Activities</b>	
Utilities - Surface Water Management	\$ 507,029
Culture & recreation - Dumas Bay Centre	181,997
<b>Total Depreciation - Business-Type Activities</b>	<b>\$ 689,026</b>

## **NOTE 9 – PENSION PLANS**

### **Washington State Department of Retirement Systems**

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](http://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) Plan I, 2 and 3**

#### Plan Description

The Legislature established PERS (Public Employees' Retirement System) in 1947. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts (other than judges currently in the Judicial Retirement System); employees of legislative committees; community and technical colleges, college and university employees not participating in higher education retirement programs; judges of district and municipal courts; and employees of local governments. 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 90 days of employment. An employee is reported in Plan 2 until a choice is made. Employees who fail to choose within 90 days default to PERS Plan 3. Notwithstanding, PERS Plan 2 and Plan 3 members may opt out of plan membership if terminally ill, with less than five years to live.

PERS Plan 1 and Plan 2 defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions.

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. (AFC is the monthly average of the 24 consecutive highest-paid service credit months.) The retirement benefit may not exceed 60 percent of AFC. The monthly benefit is subject to a minimum for PERS Plan 1 retirees who have 25 years of service and have been retired 20 years, or who have 20 years of service and have been retired 25 years. Plan 1 members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits. If a survivor option is chosen, the benefit is further reduced. A cost-of-living allowance (COLA) was granted at age 66 based upon years of service times the COLA amount. This benefit was eliminated by the Legislature, effective July 1, 2011. 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 payable to the age of 60. The allowance amount is \$350 a month, or two-thirds of the monthly AFC, whichever is less. The benefit is reduced by any workers' compensation benefit and is payable as long as the member remains disabled or until the member attains the age of 60. A member with five years of covered employment is eligible for non-duty disability retirement. Prior to the age of 55, the allowance amount is 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. A cost-of-living allowance was granted at age 66 based upon years of service times the COLA amount. This benefit was eliminated by the Legislature, effective July 1, 2011. Plan 1 members may elect to receive an optional COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 members can receive credit for military service. Members can also purchase up to 24 months of service credit lost because of an on-the-job injury.

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. (AFC is the monthly average of the 60 consecutive highest-paid service months.)

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. 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.

The surviving spouse or eligible child or children of a PERS Plan 2 member who dies after leaving eligible employment having earned ten years of service credit may request a refund of the member's accumulated contributions.

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component and member contributions finance a defined contribution component. The defined benefit portion provides a monthly benefit that is 1 percent of the AFC per year of service. (AFC is the monthly average of the 60 consecutive highest-paid service months.)

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 prior to June 1, 2003. Plan 3 members are immediately vested in the defined contribution portion of their plan.

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

- If they have at least ten service credit years and are 55 years old, the benefit is reduced by an ERF that varies with age, for each year before age 65.
- If they have 30 service credit years and are at least 55 years old, they have the choice of a benefit that is reduced by 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 defined benefit retirement benefits are also actuarially reduced to reflect the choice, if made, of a survivor option. There is no cap on years of service credit and Plan 3 provides the same cost-of-living allowance as Plan 2.

PERS Plan 3 defined contribution retirement benefits are solely dependent upon contributions and the results of investment activities.

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

PERS Plan 2 and Plan 3 provide disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 monthly benefit amount is 2 percent of the AFC per year of service. For Plan 3, the monthly benefit amount is 1 percent of the AFC per year of service.

These disability benefit amounts are actuarially reduced for each year that the member's age is less than 65, and to reflect the choice of a survivor option. There is no cap on years of service credit, and a cost-of-living allowance is granted (based on the Consumer Price Index) capped at 3 percent annually.

PERS 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. Effective July 24, 2005, a member who becomes totally incapacitated for continued employment while serving the uniformed services, or a surviving spouse or eligible children, may apply for interruptive military service credit. Additionally, PERS Plan 2 and Plan 3 members can also purchase up to 24 months of service credit lost because of an on-the-job injury.

PERS members may also purchase up to five years of additional service credit once eligible for retirement. This credit can only be purchased at the time of retirement and 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 Plan 3 member with ten years of service who is killed in the course of employment receive retirement benefits without actuarial reduction, if the member was not at normal retirement age at death. This provision applies to any member killed in the course of employment, on or after June 10, 2004, if found eligible by the Department of Labor and Industries.

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

#### *Judicial Benefit Multiplier*

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

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

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

There are 1,197 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2011:

Retirees and beneficiaries receiving benefits	76,899
Terminated plan members entitled to but not yet receiving benefits	28,860
Active plan members vest	105,521
Active plan members nonvested	51,005
<b>Total</b>	<b>262,285</b>

### 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. All employers are required to contribute at the level established by the Legislature. Under PERS Plan 3, employer contributions finance the defined benefit portion of the plan and member contributions finance the defined contribution portion. The 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, 2011, are as follows:

Members not participating in JBM:

	<u>PERS Plan 1</u>	<u>PERS Plan 2</u>	<u>PERS Plan 3</u>
Employer*	7.25%*	7.25%	7.25%**
Employee	6.00%	4.59%	***

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

\*\* Plan 3 defined benefit portion only.

\*\*\* Variable from 5.0% to 15.0% maximum based on rate selected by the PERS 3 member.

Members participating in JBM:

	<u>PERS Plan 1</u>	<u>PERS Plan 2</u>	<u>PERS Plan 3</u>
Employer*	7.25%*	7.25%	7.25%**
Employee	12.26%	11.60%	7.50***

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

\*\* Plan 3 defined benefit portion only.

\*\*\* Minimum Rate

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

	<u>PERS Plan I</u>	<u>PERS Plan II</u>	<u>PERS Plan III</u>
2011 \$	2,872	\$ 623,807	\$ 111,278
2010 \$	7,826	\$ 571,406	\$ 104,390
2009 \$	13,646	\$ 745,549	\$ 137,774

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

### Plan Description

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

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

LEOFF defined benefit retirement benefits are financed from a combination of investment earnings, employer and employee contributions, and a special funding situation in which the state pays through state legislative appropriations.

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.

Plan 1 retirement benefits are vested after an employee completes 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 is as follows:

<u>Term of Service</u>	<u>Percent of Final Average</u>
20 or more years	2.0%
10 but less than 20 years	1.5%
5 but less than 10 years	1.0%

The final average salary 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, 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 allowance or service retirement allowance.

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

LEOFF Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members may retire at the age of 50 with 20 years of service, or at the age of 53 with five years of service, with an allowance of 2 percent of the FAS per year of service. (FAS is based on the highest consecutive 60 months). Plan 2 members who retire prior to the age of 53 receive reduced benefits. Benefits are actuarially reduced for each year that the benefit commences prior to age 53 and to reflect the choice of a survivor option. 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 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 allowance amount is 2 percent of the FAS for each year of service. Benefits are actuarially reduced for each year that the member's age is less than 53, unless the disability is duty-related, and to reflect the choice of a survivor option. 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 catastrophic 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 severely 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 allowance 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 servicing in the uniformed services may apply for interruptive military service credit. Should any such member die during this active duty, the member's surviving spouse or eligible child (ren) may request service credit on behalf of the deceased member.

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, if found eligible by the Department of Labor and Industries.

There are 374 participating employers in LEOFF. Membership in LEOFF consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2011:

Retirees and beneficiaries receiving benefits	9,647
Terminated plan members entitled to but not yet receiving benefits	782
Active plan members vest	13,420
Active plan members nonvested	3,656
<b>Total</b>	<b>27,505</b>

Funding Policy

Starting on July 1, 2000, LEOFF Plan 1 employers and employees contribute zero percent as long as the plan remains fully funded. Employer and employee contribution rates are developed by the Office of the State Actuary to fully fund the plan. LEOFF Plan 2 employers and employees are required to pay at the level adopted by the LEOFF Plan 2 Retirement Board. The Legislature, by means of a special funding arrangement, appropriated money from the state General Fund to supplement the current service liability and fund the prior service costs of LEOFF Plan 2 in accordance with the requirements of the Pension Funding Council and the LEOFF Plan 2 Retirement Board. However, this special funding situation is not mandated by the state constitution and this funding requirement could be returned to the employers by a change of statute.

The required contribution rates expressed as a percentage of current year covered payroll, as of December 31, 2011 were:

	<u>LEOFF Plan I</u>	<u>LEOFF Plan II</u>
Employer	0.16% *	5.24% **
Employee	0.00%	8.46%
State	N/A	3.45%

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

\*\* The employer rate for ports and universities is 7.18%.

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

	<u>LEOFF Plan I</u>	<u>LEOFF Plan II</u>
2011	\$ -	\$ 577,434
2010	\$ -	\$ 589,769
2009	\$ -	\$ 598,194

**Other Local Government Pension Systems - City of Federal Way Employees' Retirement System**

Effective June 1, 1990, the Federal Way City Council established the Federal Way Employees' Retirement System, per City Ordinance 90-74 and as authorized by the Federal Social Security Act (42 USCA, Section 418 (g)). The Retirement System is a defined contribution pension plan established as an alternative to the Federal Social Security System.

During 2011, there were a total of 306 individuals covered by this system. As of the end of the year, 295 remained as active employees of the City and six were drawing retirement benefits. The 16 inactive had left the City's employment and either had been reimbursed their contributions, or the reimbursement was pending, or they elected to have their contributions remain in the plan if the balance was \$1,000 or greater.

All regular employees of the City of Federal Way are required to participate in the system, with the City matching the employee's required contribution. The employee pays 6.2% and this is matched by the composite of a cash match (approximately 5.2%) and insurance payments (1%) for disability, survivor, accidental death and dismemberment, and lump sum death benefit coverage. Contributions into the plan are tax deferred.

Employees are entitled to make voluntary contributions to the plan, assuming that highly compensated and non-highly compensated employees are treated equally. Each payroll period, employees may make a voluntary contribution equal to a minimum of 1% of the participant's compensation, not to exceed 10% of the participant's compensation.

Covered payroll for 2011 was \$20,593,167 and total City payroll was \$24,253,038. Actual City contributions for the year were \$1,157,950. Actual employee contributions were \$1,401,516. All contributions were invested in instruments arranged through independent investment advisors selected by the Municipal Employers Benefit Trust (MEBT) committee comprised of the entities of Bellevue, Kirkland, Redmond, Edmonds, Mill Creek, Woodinville, Federal Way, and North East King County Regional Public Safety Communication Agency (NORCOM) but administered by Northwest Plan Services (NWPS). Retirement System assets are not the property of the City and are not subject to the claims of the City's general creditors. The Federal Way Retirement System assets are with Security Trust Company, N.A. who invests Plan assets.

In July 1995, the City implemented the hardship withdrawal and loan provision program that allow participants to have limited access to their contributions while still employed by the City. Hardship withdrawals are available in the event of financial necessity resulting from uninsured medical expenses, tuition expenses, purchasing one's primary residence, or to prevent foreclosure on one's primary residence. Loans receivable as of December 31, 2011 were \$1,375,678.

The consulting actuary firm of Northwest Plan Services (NWPS) has been contracted to provide record keeping, administrative and consulting services related to the Plan Actuarial determinations are not required because accidental death and dismemberment insurance, long-term disability, survivor income insurance and the lump sum death benefit are provided by a group insurance policy with Standard Insurance Company; and benefits paid to participants upon retirement are limited to: (a) a nonforfeitable, nontransferable annuity contract purchased by the plan's trustee, (b) retirement benefits payable from the employee's account to which no contributions by the City or the participant can be added after retirement, or a single lump-sum payment equal to the accumulated balance in the employee's account as of his retirement date.

**NOTE 10 – RISK MANAGEMENT**

The City uses the Risk Management Internal Service Fund to account for its risk financing activities. The City maintains insurance against most normal hazards except for unemployment insurance where it has elected to become fully self-insured. Related premiums received by the Risk Management Fund are used to reimburse the State Employment Security Department for unemployment benefits paid to eligible individuals, and to establish reserves for the payment of estimated future unemployment claims liability. The City faces most of the risks faced by similar sized cities.

Through its Risk Management Fund, the City is also recovering insurance premium costs for general liability coverage and building reserves for a future general liability self-insurance program. The City's insurance coverage in 2011 remained relatively similar to the coverage for 2010.

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

Utilizing Chapter 48.62 RCW (self-insurance regulation) and Chapter 39.34 RCW (Interlocal Cooperation Act), nine cities originally formed WCIA on January 1, 1981. WCIA was created for the purpose of providing a pooling mechanism for jointly purchasing insurance, jointly self-insuring, and / or jointly contracting for risk management services. WCIA has a total of 145 Members.

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

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

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

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

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

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

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

There were no settlements in excess of insurance for commercially insured activities for 1996 through 2011.

The following is a summary of coverage in force in 2011.

<b>SCHEDULE OF INSURANCE IN FORCE AS OF DECEMBER 31, 2011</b>			
<b>Company</b>	<b>Policy Period</b>	<b>Details of Coverage</b>	<b>Liability Limits</b>
WCIA	1/1/11-12/31/11	General liability (auto, general, police e & o, employment practices, & stop gap)	\$20,000,000 per occurrence subject to annual aggregates and sublimits. Deductible: \$100,000
WCIA	1/1/11-12/31/11	Crime/fidelity (employee dishonesty, faithful performance of duty, forgery or alternation, theft, disappearance and destruction, robbery and safe burglary, and computer fraud)	\$2,500,000. Deductible \$10,000.
WCIA	1/1/11-12/31/11	Property coverage	Limit \$300,000,000 per occurrence. Sub-limits: \$150,000,000 Earthquake per occurrence; \$100,000,000 Flood per occurrence. Deductible: earthquake 2% of the values involved, subject to \$100,000 min per occurrence. Flood \$250,000 per occurrence. All other perils \$25,000
WCIA	1/1/11-12/31/11	Automobile physical damage for scheduled automobiles	Actual cash value. Deductible \$1,000 per occurrence for scheduled automobiles
WCIA	1/1/11-12/31/11	Equipment breakdown coverage	\$100,000,000 Maximum limit; Sub-limits: \$10,000,000 business interruption; \$1,000,000 extra expense; \$500,000 hazardous waste. Deductible \$10,000 combined all coverage expect. Turbine generator units, KP motors, pumps, and deep water wells, KVA transformers, HP A/C and refrigeration systems and HP ICEs and generators >=500 HP

The City's industrial insurance is provided by Washington State and is administered by the Department of Labor and Industries. Coverage is purchased by means of standard rates per working hour and is computed by the total number of hours worked by employees multiplied by the basic premium rate assigned to the business risk classification. The following are benefits provided by industrial insurance: medical services, damaged clothing, travel expenses, time-loss payments, vocational rehabilitation, partial disability awards, pension awards and survivor benefits.

The City is self-insured for unemployment compensation. At December 31<sup>st</sup>, 2011 the City had \$1,407,110 in reserve.

	2010	2011
Unemployment reserve, Jan. 1st	\$ 1,318,338	\$ 1,407,110
Unemployment compensation benefits	241,683	248,718
Claim payments during the year	(152,911)	(248,718)
<b>Unemployment reserve, Dec. 31st</b>	<b>\$ 1,407,110</b>	<b>\$ 1,407,110</b>

#### NOTE 11 – LONG-TERM LIABILITIES

The various categories of long-term debt reflected on the City's financial statements are briefly described in the following paragraphs.

General obligation bonds are backed by the City's full faith and credit. Proceeds are typically used for the acquisition or construction of major capital facilities or equipment. "Councilmanic Bonds" are general obligation bonds issued by City Council without voter approval. Under State law, repayment of these bonds must be financed from general City revenues since no additional property taxes can be levied to support related debt service payments. General Obligation bonds approved by the voters are typically repaid through an annual "excess" property tax levy authorized for this purpose by State statute. At year-end 2011 the City had no voter-approved bonds outstanding. All principal and interest payments on general obligation debts are recorded as expenditures by the City's Debt Service Fund. The compensated absences liability will be liquidated approximately 91% by the General Fund and 9% by the Street Fund.

The following schedules detail the long-term debt activity and balances of the City.

OUTSTANDING GENERAL OBLIGATION DEBT AND LONG-TERM LIABILITIES - BY TYPE DECEMBER 31, 2011									
Description	Bond Rating at Issuance	Issue Date	Maturity Date	Interest Rate	Amount Originally Issued	Beginning Outstanding Debt	Amount Issued	Amount Redeemed	Ending Outstanding Debt
Governmental Activities:									
<i>General Obligation Bonds:</i>									
2003 Limited/Community Center	AAA-Insured	Nov 15, 03	Dec 01, 33	4.676	\$ 15,000,000	\$ 12,980,000	\$ -	\$ 330,000	\$ 12,650,000
Subtotal GO Bonds:	-	-	-	-	15,000,000	12,980,000	-	330,000	12,650,000
Other Miscellaneous Debt-Intergovernmental:									
2000 Limited/Valley Comm. PDA	A1	Sep 12, 00	Dec 01, 15	5.31	2,551,600	1,044,000	-	196,000	848,000
2009 SCORE/Special Obligation Bond	A1/AA	Nov 04, 09	Jan 01, 39	3.00-6.62	14,659,950	14,659,950	-	-	14,659,950
Subtotal miscellaneous:	-	-	-	-	17,211,550	15,703,950	-	196,000	15,507,950
Subtotal GO Bonds plus Misc.					32,211,550	28,683,950	-	526,000	28,157,950
Compensated absences	-	-	-	-	-	1,532,637	111,968	71,325	1,573,280
Subtotal GO bonds, misc. & compensated absences:	-	-	-	-	32,211,550	30,216,587	111,968	597,325	29,731,230
Business-Type Activities:									
<i>Public Works Trust Fund Loan:</i>									
PWTL - Kitts Corner Drain Imp	-	Aug 31, 94	Jul 01, 14	1.00	233,316	40,503	-	12,936	27,567
PWTL - Kitts Corner Drain Imp	-	Jul 24, 96	Jul 01, 14	1.00	1,166,580	262,193	-	64,680	197,513
PWTL - Kitts Corner Drain Imp	-	Sep 04, 97	Jul 01, 14	1.00	155,544	42,261	-	8,624	33,637
PWTL - SeaTac Mall Drain Imp	-	May 31, 00	Jul 01, 19	1.00	412,500	144,180	-	16,020	128,160
PWTL - SeaTac Mall Drain Imp	-	Aug 14, 00	Jul 01, 19	1.00	2,062,500	720,898	-	80,099	640,799
Subtotal PWTFLL	-	-	-	-	4,030,440	1,210,035	-	182,359	1,027,676
Compensated absences	-	-	-	-	-	63,162	15,539	-	78,701
Subtotal PWTFLL plus compensated absences:	-	-	-	-	4,030,440	1,273,197	15,539	182,359	1,106,377
<b>Grand Total All Long-Term Debt:</b>	-	-	-	-	<b>\$ 36,241,990</b>	<b>\$ 31,489,784</b>	<b>\$ 127,507</b>	<b>\$ 779,684</b>	<b>\$ 30,837,607</b>

OUTSTANDING GENERAL OBLIGATION DEBT AND LONG-TERM LIABILITIES - BY FUND						
DECEMBER 31, 2011						
Description	Amount Originally Issued	Beginning Outstanding Debt	Amount Issued	Amount Redeemed*	Ending Outstanding Debt	Due within one year
Governmental Long-Term Debt:						
General Obligation Bonds:						
2003 Limited/Community Center	\$ 15,000,000	\$ 12,980,000	\$ -	\$ 330,000	\$ 12,650,000	\$ 340,000
Subtotal GO Bonds:	15,000,000	12,980,000	-	330,000	12,650,000	340,000
Other Miscellaneous Debt-Intergovernmental:						
2000 Limited/Valley Comm. PDA	2,551,600	1,044,000	-	196,000	848,000	201,000
2009 SCORE/Special Obligation Bond	14,659,950	14,659,950	-	-	14,659,950	-
Subtotal miscellaneous:	17,211,550	15,703,950	-	196,000	15,507,950	201,000
Subtotal GO Bonds plus Misc.	32,211,550	28,683,950	-	526,000	28,157,950	541,000
Compensated absences	-	1,532,637	111,968	71,325	1,573,280	105,264
Subtotal GO bonds, misc. & compensated absences:	32,211,550	30,216,587	111,968	597,325	29,731,230	646,264
Business-Type Activities:						
Enterprise Funds:						
Public Works Trust Fund Loan	4,030,440	1,210,035	-	182,359	1,027,676	182,359
Subtotal Bus-Type Long-Term Debt	4,030,440	1,210,035	-	182,359	1,027,676	182,359
Compensated absences	-	63,162	15,539	-	78,701	2,534
Total Bus-Type plus comp. absences LTD:	4,030,440	1,273,197	15,539	182,359	1,106,377	184,893
<b>Grant Total All Long-Term Debt:</b>	<b>\$ 36,241,990</b>	<b>\$ 31,489,784</b>	<b>\$ 127,507</b>	<b>\$ 779,684</b>	<b>\$ 30,837,607</b>	<b>\$ 831,157</b>

\* Debt service principal payments in Debt Service Fund include credits of \$30,270 from Interlocal agreement with Federal Way Fire District to participate in capital cost obligations with Valley Communications joint venture with the City of Federal Way.

SCHEDULE OF CHANGES IN LONG-TERM LIABILITIES				
PERIOD ENDED DECEMBER 31, 2011				
	Beginning Outstanding Debt	Additions	Reductions	Ending Outstanding Debt
Governmental Activities:				
General Obligation Bonds	\$ 12,980,000	\$ -	\$ (330,000)	\$ 12,650,000
Other-intergovernmental debt	15,703,950	-	(196,000)	15,507,950
Compensated absences	1,532,637	111,968	(71,325)	1,573,280
Total Governmental Activities	30,216,587	111,968	(597,325)	29,731,230
Business-Type Activities:				
Enterprise Funds				
Public Works Trust Fund Loan	1,210,035	-	(182,359)	1,027,676
Compensated absences	63,162	15,539	-	78,701
Total Business-Type Activities	1,273,197	15,539	(182,359)	1,106,377
<b>Total All Funds</b>	<b>\$ 31,489,784</b>	<b>\$ 127,507</b>	<b>\$ (779,684)</b>	<b>\$ 30,837,607</b>

SCHEDULE OF DEBT SERVICE REQUIREMENTS TO MATURITY							
AS OF DECEMBER 31, 2011							
Year	Government Activities		Business-Type Activities		Grand Total		
	General Governmental Debt		Public Work Trust Fund		Principal	Interest	P&I
	Principal	Interest	Principal	Interest			
2012	541,000	901,657	182,359	10,277	723,359	911,934	1,635,293
2013	895,550	1,176,067	182,359	8,453	1,077,909	1,184,520	2,262,429
2014	913,500	1,147,476	182,359	6,630	1,095,859	1,154,106	2,249,965
2015	943,300	1,114,298	96,120	4,806	1,039,420	1,119,104	2,158,524
2016	756,050	1,076,875	96,120	3,845	852,170	1,080,720	1,932,889
2017-2021	4,267,650	4,901,226	288,359	5,767	4,556,009	4,906,993	9,463,002
2022-2026	5,300,650	3,913,438	-	-	5,300,650	3,913,438	9,214,088
2027-2031	6,656,700	2,607,581	-	-	6,656,700	2,607,581	9,264,281
2032-2036	5,357,350	1,068,039	-	-	5,357,350	1,068,039	6,425,389
2037-2041	2,526,200	166,026	-	-	2,526,200	166,026	2,692,226
<b>Total</b>	<b>\$ 28,157,950</b>	<b>\$ 18,072,683</b>	<b>\$ 1,027,676</b>	<b>\$ 39,777</b>	<b>\$ 29,185,626</b>	<b>\$ 18,112,460</b>	<b>\$ 47,298,086</b>

**Computation of Legal Debt Margin**

Under Washington State law (RCW 39.36.020), a City may incur general obligation debt for general city purposes in an amount not to exceed 2½ percent of the value of all taxable property within the City. State law requires all property to be assessed at 100 percent of its true and fair value. Unlimited tax general obligation debt requires an approving vote of the people, and any election to validate such general obligation debt must have a voter turnout of at least 40 percent of those who voted in the last State general election and of those voting, 60 percent must be in the affirmative. The City Council may, by ordinance, authorize the issuance of limited tax general obligation debt in an amount up to 1.5% of the valuation within the City without a vote of the people. No combination of limited or unlimited tax debt may exceed 7½ percent of the valuation. The debt service on unlimited tax debt is secured by excess property tax levies, whereas the debt service on limited tax debt is secured by property taxes collected with the City's councilmanic levy.

The City's legally remaining debt capacities as of December 31, 2011 are:

General government (no vote required)	\$	94,879,813
General government (3/5 majority vote required)		77,229,838
Parks and open space (3/5 majority vote required)		193,074,595
Utilities (3/5 majority vote required)		193,074,595
<b>Total Capacity</b>		<b>\$ 558,258,841</b>

**Compensated Absences**

The City's liability for accrued vacation and compensatory time balances is recorded in the schedule below. Accrued compensated absences for proprietary fund employees are recorded as liabilities in those funds expected to incur the related future expense.

<i>Governmental Activities:</i>	
Current portion	\$ 105,264
Noncurrent portion	1,468,016
<i>Business-Type Activities:</i>	
Current portion	2,534
Noncurrent portion	76,167
<b>Total Compensated absences \$ 1,651,981</b>	

**Estimated Arbitrage Rebate**

The Federal Tax Reform Act of 1986 requires issuers of tax-exempt debt of over \$5 million to make payments to the United States Treasury of investment interest received at yields that exceed the issuer's tax-exempt borrowing rates. Payments of arbitrage rebate amounts due under these regulations must be made to the U.S. Treasury every five years. The City's estimated rebatable arbitrage amount as of December 31, 2011 is \$-0- for its tax-exempt general obligation bond issues subject to the Tax Reform Act issued through that date.

**Leases**

The City of Federal Way leases office buildings and land which are accounted for as operating leases. Operating leases do not give rise to property rights or lease obligations, and therefore the results of the lease agreements are not reflected in the City's capital assets. Total Cost for the leases was \$3,720 for the year ended December 31, 2011. The current year lease payments included the site lease for the City's WiFi Project. Federal Way WiFi project is to provide free broadband Internet service to Federal Way citizens, businesses and visitors in the downtown business corridor, City parks, Community Center, Dumas Bay Centre and City Hall. The site lease was extended in July of 2010 for an additional 5 years terminating in July 2015. The future minimum lease payments for the WiFi Project are as follows:

2011	\$	3,000
2012		3,000
2013		3,000
2014		3,000
2015		1,500
<b>Total:</b>		<b>\$ 13,500</b>

**NOTE 12 – INTERFUND TRANSACTIONS**

Interfund transfers for the year ended December 31, 2011 were as follows:

Interfund Transfers	In	Out
Governmental Funds:		
General Fund	\$ 13,222,353	\$ 1,818,870
Street Fund	2,444,870	-
Utility Tax Fund	-	12,563,553
Debt Service	915,000	920,000
Downtown Redevelopment	-	750,000
Transportation	1,611,000	4,100,000
Nonmajor Governmental Funds	3,260,000	1,358,000
Proprietary Funds:		
Surface Water Management	846,865	846,865
Dumas Bay Centre	113,000	-
Internal Service Funds	13,500	69,300
<b>Total:</b>	<b>\$22,426,588</b>	<b>\$22,426,588</b>

The following describes the amounts transferred out during 2011:

## General Fund:

- \$1,743,870 to Street Fund to subsidize street maintenance and operations
- \$50,000 to CDBG Neighborhood Stabilization Program support
- \$25,000 to Federal Way Community Center for use of facilities by General Parks and Recreation

## Utility Tax Fund:

- \$2,769,553 to General Fund for Proposition 1 for Public Safety and Community Programs Funding
- \$915,000 to Federal Way Community Center Debt Service
- \$1,011,000 to Arterial Street Fund overlay program
- \$1,432,000 to General Fund for Public Safety Positions
- \$226,000 to General Fund for Celebration Park maintenance & operations
- \$371,000 to Street Fund for maintenance and operations on bond projects
- \$113,000 to Dumas Bay Centre Fund for Knutzen Family Theatre subsidy
- \$74,100 to General Fund for Arts Commission
- \$22,900 to General Fund for Red, Whites & Blues Festival
- \$48,000 to General Fund for new Parks maintenance and operations
- \$696,000 to Federal Way Community Center for maintenance/operations and capital reserves
- \$3,919,000 to General Fund for ongoing support of operations
- \$500,000 to Transportation CIP project South 320<sup>th</sup> St at 20<sup>th</sup> Ave South
- \$291,000 to Transportation CIP project 21<sup>st</sup> Ave Southwest at Southwest 336<sup>th</sup> St.
- \$50,000 to Parks CIP Major Maintenance-Parks Facilities
- \$125,000 to Parks CIP for Sacajawea Park Masterplan

## Debt Service Fund:

- \$820,000 of Real Estate Excise Tax to Transportation CIP project 21<sup>st</sup> Ave Southwest at Southwest 336<sup>th</sup> St.
- \$100,000 of Real Estate Excise Tax to Parks CIP for Playgrounds

## Downtown Redevelopment:

- \$750,000 to City Facilities for PACC

## Transportation CIP Fund:

- \$3,800,000 to General Fund for unspent project savings
- \$300,000 to Arterial Street Fund overlay program

## Proprietary Funds:

- \$144,798 from Surface Water Management CIP to Surface Water Management Operations
- \$222,000 from Surface Water Management Operations to Surface Water Management CIP for Small Projects
- \$480,067 from Surface Water Management Operations to Surface Water Management CIP for Department of Ecology Grant.

Internal Service:

- \$13,500 from Risk management to Fleet/Equipment for insurance proceeds
- \$55,800 from Fleet/Equipment to General Fund for fleet excess reserves

Nonmajor Fund:

- \$50,000 from Traffic Safety Fund to General Fund for support of Municipal Court
- \$825,000 from Traffic Safety Fund to General Fund for support of Police Department
- \$330,000 from Traffic Safety Fund to Street Fund for support of Traffic Services

Interfund loans for the year ended December 31, 2011 were as follows:

Interfund Loans	Receivable	Payable
General Fund	\$ 10,000	\$ -
Special Revenue Funds:		
Community Development Block Grant	-	10,000
<b>Total Interfund Loans</b>	<b>\$ 10,000</b>	<b>\$ 10,000</b>

**NOTE 13 – CONTINGENCIES AND LITIGATION**

As of December 31, 2011 there were a small number of claims for damages and lawsuits pending against the City. In the opinion of the City Attorney, however, neither the potential liability for any single claim or lawsuit, nor the aggregate potential liability arising from all actions currently pending would materially affect the financial condition of the City. Due to both their uncertainty and immateriality, no liabilities or estimated liabilities have been included in the City's financial statements.

**NOTE 14 – JOINT VENTURE**

**Valley Communication Center**

The “Valley Communications Center” was established August 20, 1976, when an Interlocal Agreement was entered into by the four original participating municipal corporations, including the cities of Renton, Kent, Auburn, and Tukwila, and Federal Way which was formally admitted during 2000. The agreement is sanctioned by the provisions and terms of the Interlocal Cooperation Act pursuant to RCW 39.34. The initial duration of the agreement was five years, and thereafter is automatically extended for consecutive five year-periods.

The purpose of the joint operation, hereafter referred to as Valley Com, is to provide improved consolidated emergency communications (dispatch) services for police, fire, and medical aid, to the five participating cities and to several subscribing agencies, which include King County Fire Districts 2, 20, 26, 40, 43, 44, and 47; City of Pacific Police and Fire Departments, City of Algona Police Department, City of Des Moines Police Department, City of Black Diamond Police and Fire Department; SeaTac Fire Department; North Highline Fire Department; King County EMS Units; and Vashon Island Fire Department. Separate agreements between Valley Com and the subscribing agencies have been executed, which set forth conditions of services and rates charged.

The allocation of prorated financial participation among the five member cities is the percentage of dispatched calls attributed to each jurisdiction compared to the total estimated dispatched calls, for the current twelve month period ending December 31. The percentages are applied to the current approved budget, less revenue from all other sources. Distribution of the current year net income is based on the same percentages. The 2011 cost distributions for the five member cities are as follows:

City	Dispatchable Calls	Percent of Total
Kent	94,760	27.57%
Renton	73,519	21.39%
Auburn	66,805	19.43%
Tukwila	33,025	9.61%
Federal Way	75,628	22.00%
<b>Total</b>	<b>343,737</b>	<b>100.00%</b>

Valley Com is governed by an Administration Board, composed of the Mayors or designated representatives from the five participating cities of Renton, Kent, Auburn, Tukwila, and Federal Way. The Administration Board is authorized to establish bylaws that govern procedures of the Board and Valley Com's general operations for the following functions: 1) Budget review and recommendations to the legislative bodies of the member cities, and budget adoption after each legislative body has approved the required financial participation for the ensuing year; 2) Approve appointment and/or discharge of the Director; 3) Approve personnel policy and make final decisions on all major policy changes; and 4) Review and approves all contracts.

In addition, an Operating Board was established and consists of two members of each participating City's Public Safety Departments, including the heads of such departments or their designees. The Operating Board performs the following functions: 1) Oversees the general operation of Valley Com, and advises and makes recommendations to the Administration Board; 2) Make recommendations on Director selection; 3) Presents proposed policies and budgets to the Administration Board; and 4) Reviews disbursements of funds by the Director.

The Director presents a proposed budget to the Operating Board on or before August 15 of each year. Said budget is then presented to the Administrative Board by September 1 of each year. The Administration Board can make changes to the proposed Valley Com budget as it finds necessary, but final approval falls to the legislative body of each member city, in accordance with the provisions of the interlocal agreement.

In May 1993 Valley Com entered into an agreement with King County to provide joint project management for the acquisition and installation of 800-MHz emergency radio communications system approved by the voters of King County in conjunction with a \$57 million levy. In August 1993 Valley Com also entered into an Interlocal Cooperation Agreement with the sub-regions of King County, Seattle, and Eastside Public Safety Communications, which governs the development and installation of the new 800-MHz emergency radio system. Valley Com now provides emergency communication dispatch services to a population of approximately 570,000.

Valley Com operates as an enterprise fund and is totally self supporting through the implementation of user fees and the primary source of revenue is provided by charges for calls for service. The 800-MHz emergency radio communications system operated by the agreement with King County is operated as a separate enterprise fund, and the Member Cities have no equity interest in the contributed capital from this system.

The share of equity belonging to the five participating cities is shown below. Liabilities are the responsibility of the five participating cities in direct proportion to their equity position.

	Balances in 2011					
	Kent	Renton	Auburn	Tukwila	Federal Way	Total
Equity @ January 1, 2011	\$ 6,841,893	\$ 4,833,671	\$ 4,575,538	\$ 2,739,460	\$ 3,090,648	\$ 22,081,210
Current year increase	210,199	163,082	148,189	73,257	167,760	762,487
Equity @ December 31, 2011	\$ 7,052,092	\$ 4,996,753	\$ 4,723,727	\$ 2,812,717	\$ 3,258,408	\$ 22,843,697
Percent of equity	30.87%	21.87%	20.68%	12.31%	14.26%	100.00%
Percent of 2010 distribution	30.99%	21.89%	20.72%	12.41%	14.00%	100.00%

A complete set of financial statements is available from: Valley Communications Center, 27519 108<sup>th</sup> Avenue SE, Kent, WA 98030.

### **South Correction Entity (SCORE)**

The South Correctional Entity (SCORE) consolidated correctional facility was established February 25, 2009, when an Interlocal Agreement (the "Original Interlocal Agreement") was entered into by seven participating municipal governments, the "Member Cities" of Auburn, Burien, Des Moines, Federal Way, Renton, SeaTac and Tukwila, under the authority of the "Interlocal Cooperation Act" (RCW 39.34). This "Original Interlocal Agreement" was amended and restated October 1, 2009 and named the City of Des Moines as the "Host City" and the remaining Member Cities as "Owner Cities". This interlocal agreement is known as the "Formation Interlocal Agreement". Pursuant to a separate "Host City Agreement" dated October 1, 2009, the Host City will not enjoy the same equity position as the Owner Cities until all debts issued are paid and the Host City fulfills all of its obligations as outlined in the Agreement.

SCORE, a governmental administrative agency pursuant to RCW 39.34.030 (3), has the power to acquire, construct, own, operate, maintain, equip, and improve a correctional facility known as the "SCORE Facility" and to provide correctional services and functions incidental thereto, for the purpose of detaining arrestees and sentenced offenders in the furtherance of

public safety and emergencies within the jurisdiction of the Member Cities. The SCORE Facility may serve the Member Cities and Subscribing Agencies which are in need of correctional facilities. Any agreement with a Subscribing Agency shall be in writing and approved by SCORE as provided within the SCORE Formation Interlocal Agreement.

Financing for the acquisition, construction, equipping, and improvement of the SCORE Facility will be provided by bonds issued by the South Correctional Entity Facility Public Development Authority (the "SCORE PDA"), a public development authority chartered by the City of Renton pursuant to RCW 35.21.730 through 35.21.755 and secured by the full faith and credit of the Cities of Auburn, Burien Federal Way, Renton, SeaTac, and Tukwila (the "Owner Cities"). The SCORE PDA issued \$86 million in special obligation bonds in 2009 to carry out the facility development project. The following is a summary of the debt service requirements for the bond issue:

Summary of Debt Service Requirements											
Debt Service Schedule					Debt Service Allocation to Owner Cities						
Year	Principal	Interest	35% BABs		Auburn	Burien	Federal Way	Renton	SeaTac	Tukwila	
			Subsidy	Total	31%	4%	18%	36%	3%	8%	
2012	\$ -	\$ 5,155,732	\$ (1,675,089)	\$ 3,480,643	\$ 1,078,999	\$ 139,226	\$ 626,516	\$ 1,253,031	\$ 104,419	\$ 278,451	
2013	1,915,000	5,126,998	(1,675,089)	5,366,909	1,663,742	214,676	966,044	1,932,087	161,007	429,353	
2014	1,950,000	5,066,566	(1,654,975)	5,361,591	1,662,093	214,464	965,086	1,930,173	160,848	428,927	
2015	1,990,000	4,995,069	(1,632,787)	5,352,282	1,659,207	214,091	963,411	1,926,822	160,568	428,183	
2016	2,065,000	4,911,886	(1,632,787)	5,344,099	1,656,671	213,764	961,938	1,923,876	160,323	427,528	
2017-2021	11,545,000	22,986,907	(7,869,713)	26,662,194	8,265,280	1,066,488	4,799,195	9,598,390	799,866	2,132,976	
2022-2026	13,945,000	19,586,127	(6,994,733)	26,536,394	8,226,282	1,061,456	4,776,551	9,553,102	796,092	2,122,912	
2027-2031	17,010,000	14,723,464	(5,346,730)	26,386,734	8,179,888	1,055,469	4,749,612	9,499,224	791,602	2,110,939	
2032-2036	20,955,000	8,498,417	(3,217,063)	26,236,354	8,133,270	1,049,454	4,722,544	9,445,087	787,091	2,098,908	
2035-2039	14,860,000	1,502,494	(697,922)	15,664,572	4,856,017	626,583	2,819,623	5,639,246	469,937	1,253,166	
<b>Total</b>	<b>\$ 86,235,000</b>	<b>\$ 92,553,660</b>	<b>\$ (32,396,888)</b>	<b>\$ 146,391,772</b>	<b>\$ 45,381,449</b>	<b>\$ 5,855,671</b>	<b>\$ 26,350,520</b>	<b>\$ 52,701,038</b>	<b>\$ 4,391,753</b>	<b>\$ 11,711,343</b>	

Note: Interest is to be paid from bond proceeds during the construction period (2010-2011).

\*Of the \$26,350,520 allocation to Federal Way, \$15,522,298 is for the principal portion and the remainder is for interest.

The City of Federal Way reports its share of equity interest in the Governmental Activities column within the Government-wide financial statements under non-current assets. The following is condensed (unaudited) financial information as of December 31, 2011 related to SCORE:

South Correction Entity (SCORE)				
2011 Owner Cities Equity Allocation				
Member City	Percent of Equity	2010 Equity Balance	2011	
			Distribution	Equity Balance
Auburn	31.00%	\$ 1,601,588	\$ 1,587,732	\$ 3,189,320
Burien	4.00%	206,656	204,869	411,525
Federal Way	18.00%	929,954	921,909	1,851,863
Renton	36.00%	1,859,910	1,843,818	3,703,728
SeaTac	3.00%	154,992	153,651	308,643
Tukwila	8.00%	413,313	409,737	823,050
<b>Total</b>	<b>100.00%</b>	<b>\$ 5,166,413</b>	<b>\$ 5,121,716</b>	<b>\$ 10,288,129</b>

A complete set of financial statements is available from: SCORE, 20817 17<sup>th</sup> Avenue South, Des Moines, WA 98198.

**NOTE 15 – PRIOR PERIOD ADJUSTMENT**

<b>Governmental Activity</b>	<b>Beginning Balance 1/1/2011</b>	<b>Prior Period Adjustment</b>	<b>Adjusted Beginning Balance</b>	<b>Additions</b>	<b>Deletions</b>	<b>Ending Balance 12/31/2011</b>
Capital assets, not being depreciated:						
Land	\$ 301,270,211	\$ -	\$ 301,270,211	\$ 898,006	\$ -	\$ 302,168,217
Construction in progress	16,193,940	(895,299)	15,298,641	11,445,599	(5,586,182)	21,158,058
Total capital assets, not being depreciated:	317,464,151	(895,299)	316,568,852	12,343,605	(5,586,182)	323,326,275
Capital assets, being depreciated						
Buildings	16,698,395	-	16,698,395	648,316	(197,692)	17,149,019
Improvements other than buildings	43,264,217	-	43,264,217	601,363	-	43,865,580
Infrastructure	143,187,237	-	143,187,237	3,976,317	-	147,163,554
Machinery and equipment	14,713,673	-	14,713,673	1,328,904	(823,559)	15,219,018
Total capital assets, being depreciated:	217,863,522	-	217,863,522	6,554,900	(1,021,251)	223,397,171
Less accumulated depreciation for:						
Buildings	(4,797,631)	-	(4,797,631)	(884,127)	68,883	(5,612,875)
Improvements other than buildings	(12,766,566)	-	(12,766,566)	(2,163,211)	-	(14,929,777)
Infrastructure	(29,475,841)	-	(29,475,841)	(3,829,373)	-	(33,305,214)
Machinery and equipment	(9,636,291)	11,830	(9,624,461)	(1,243,402)	717,186	(10,150,677)
Total accumulated depreciation:	(56,676,328)	11,830	(56,664,498)	(8,120,113)	786,069	(63,998,542)
Total assets being depreciated, net	161,187,194	11,830	161,199,024	(1,565,213)	(235,182)	159,398,629
Governmental activities capital assets, net	\$ 478,651,345	\$ (883,469)	\$ 477,767,876	\$ 10,778,392	\$ (5,821,364)	\$ 482,724,904

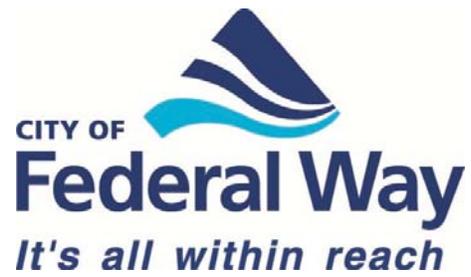
<b>Business-Type Activities</b>	<b>Beginning Balance 1/1/2011</b>	<b>Prior Period Adjustment</b>	<b>Adjusted Beginning Balance</b>	<b>Additions</b>	<b>Deletions</b>	<b>Ending Balance 12/31/2011</b>
Capital assets, not being depreciated:						
Land	\$ 10,307,661	\$ -	\$ 10,307,661	\$ 2,554	\$ -	\$ 10,310,215
Construction in progress	1,766,190	599,282	2,365,472	92,421	(4,423)	2,453,470
Total capital assets, not being depreciated:	12,073,851	599,282	12,673,133	94,975	(4,423)	12,763,685
Capital assets, being depreciated						
Buildings	3,596,441	-	3,596,441	4,423	-	3,600,864
Improvements other than buildings	48,528,302	(709,534)	47,818,768	-	-	47,818,768
Infrastructure	1,916,645	-	1,916,645	-	-	1,916,645
Machinery and equipment	106,643	-	106,643	11,731	-	118,374
Total capital assets, being depreciated:	54,148,030	(709,534)	53,438,496	16,154	-	53,454,650
Less accumulated depreciation for:						
Buildings	(2,438,349)	-	(2,438,349)	(181,631)	-	(2,619,980)
Improvements other than buildings	(11,843,453)	-	(11,843,453)	(485,283)	-	(12,328,736)
Infrastructure	(81,476)	-	(81,476)	(19,166)	-	(100,642)
Machinery and equipment	(85,472)	-	(85,472)	(2,946)	-	(88,418)
Total accumulated depreciation:	(14,448,750)	-	(14,448,750)	(689,026)	-	(15,137,776)
Total assets being depreciated, net	39,699,280	(709,534)	38,989,746	(672,872)	-	38,316,874
Business Type activities capital assets, net	\$ 51,773,131	\$ (110,252)	\$ 51,662,879	\$ (577,897)	\$ (4,423)	\$ 51,080,559

Governmental-type activity prior period adjustments of \$883,469 are required for construction in progress and include adjustments of \$568,022 for equipment that were previously capitalized in the internal service funds in 2009 and was not deleted from construction in progress, \$324,986 for private work done between 2006-2009 that should have not been reported as construction in progress, \$2,291 for technical adjustments to be deleted from construction in progress, and a (\$11,830) adjustment to accumulated depreciation for a reporting error in 2010.

Business-type activity prior period adjustments of (\$110,252) include adjustments for construction in progress corrections from previous years of \$599,282, and (\$709,534) in adjustments to Improvements Other Than Buildings for legal services related to a settlement that should not have been capitalized as part of the project cost.

**NOTE 16 – SUBSEQUENT EVENT**

On March 6, 2012 Council approved a bond ordinance for the purpose of refunding the 2003 Federal Way Community Center bonds. The \$15M bond was issued in 2003 and has the option to call \$11,955,000 on or after 12/1/2013. The current average interest rates on the bonds are 4.66%. The interest rates on the refunding bonds would average between 3.0% to 3.25%. The timing of the bond sale is to be determined, based on market conditions.



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## Combining Statement – Nonmajor Governmental Funds’ Description For the Year Ended December 31, 2011

### **Special Revenue Funds**

Special Revenue funds are used to account for the proceeds of revenue sources (other than special assessments, expendable trusts or major capital projects) that are legally restricted to expenditures for specified purposes.

The *Arterial Street Fund* accounts for the receipt and expenditure of the State-levied motor vehicle fuel tax distributed to the City in accordance with State R.C.W. 82.36.020. These revenues are to be used for the construction, improvement, chip sealing, seal-coating, and repair of arterial highways and city streets, or for the payment of related municipal indebtedness.

The *Solid Waste/Recycling Fund* was established to account for special refuse collection fees used to manage the Solid Waste and Recycling program.

The *Special Contracts/Studies Fund* accounts for receipts and disbursements related to special contracts and special projects where completion will extend beyond the calendar year.

The *Hotel/Motel Lodging Tax Fund* was established to account for all lodging tax receipts and disbursements related to tourism promotion and acquisition and/or operation of tourism-related facilities.

The *Federal Way Community Center Fund* was established to account for the operation of the community center. The fund is supported by user fees and designated utility tax transfers.

The *Traffic Safety Fund* was established to account for the penalties and fines collected in criminal traffic violations and those related to the operation of the Red Light Photo Enforcement Program. Funds collected for traffic safety shall be used for, but not limited to prevention, education, and enforcement effectors related to traffic safety and compliance with traffic control devices within the city, including maintenance and operation costs.

The *Community Development Block Grant Fund* accounts for the receipt and disbursement of federal grant revenue received through the Department of Housing and Urban Development's Community Development Block Grant Program. Separate subsidiary records are maintained to administer the individual projects accounted for in this fund.

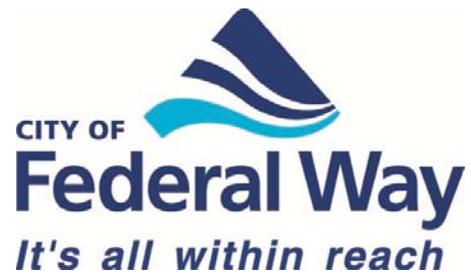
The *Path and Trails Reserve Fund* was established in accordance with State law to accumulate unexpended proceeds of the City's ½% motor vehicle fuel tax receipts which are restricted in use to the construction and maintenance of paths and trails within City right-of-way. In August 2007, King County voters approved a new \$0.05, six-year, inflation adjusted property tax lid lift to expand park and recreation opportunities. One cent of the five-cent acquisition levy proceeds will be distributed to cities for acquisition and development of open space and natural lands and city trail projects that support connections to the regional trail system.

### **Capital Projects Funds**

The Capital Project Funds account for the acquisition or construction of major capital facilities with the exception of those facilities financed by proprietary and trust funds. The major sources of revenue for this fund are general obligation bond proceeds, grants from other agencies, local taxes and contributions from other funds.

The *Parks CIP Fund* was established to account for receipts and disbursements related to acquisition, design, construction and any other related parks capital project expenditures.

The *City Facilities CIP Fund* accounts for receipts and disbursements related to acquisition, design, construction and any other related municipal facility and community/senior capital project expenditures.



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**COMBINING BALANCE SHEET**  
**NONMAJOR GOVERNMENTAL FUNDS**  
December 31, 2011

	Special Revenue	Capital Projects	Total
<b>ASSETS</b>			
Equity in pooled cash & investments	\$ 3,315,681	\$ 3,753,705	\$ 7,069,386
Retainage in escrow	-	6,922	6,922
Receivables (net):			
Accounts and contracts	89,666	-	89,666
Due from other governments	124,794	-	124,794
	<u>3,530,141</u>	<u>3,760,628</u>	<u>7,290,768</u>
<b>TOTAL ASSETS</b>			
 <b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Vouchers payable	170,782	59,206	229,988
Retainage payable	103,579	6,922	110,502
Deposits payable	16,206	-	16,206
Interfund loans payable	10,000	-	10,000
Deferred revenue	110,116	-	110,116
	<u>410,684</u>	<u>66,128</u>	<u>476,812</u>
<b>TOTAL LIABILITIES</b>			
 Fund Balance:			
Restricted	970,756	2,891,893	3,862,649
Committed	2,148,702	802,606	2,951,308
	<u>3,119,457</u>	<u>3,694,499</u>	<u>6,813,957</u>
<b>TOTAL FUND BALANCES</b>			
 <b>TOTAL LIABILITIES AND FUND BALANCE</b>	 <u>\$ 3,530,141</u>	 <u>\$ 3,760,627</u>	 <u>\$ 7,290,768</u>

**COMBINING BALANCE SHEET**  
**NONMAJOR SPECIAL REVENUE FUNDS**  
December 31, 2011

	Arterial Street	Solid Waste Recycling	Special Contracts/ Studies	Hotel/Motel Lodging Tax
<b>ASSETS</b>				
Equity in pooled cash & investments	\$ 541,911	\$ 160,516	\$ 556,753	\$ 201,488
Receivables (net):				
Accounts and contracts	-	-	-	-
Due from other governments	34,625	-	-	12,247
<b>TOTAL ASSETS</b>	<b>576,536</b>	<b>160,516</b>	<b>556,753</b>	<b>213,734</b>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Vouchers payable	3,254	6,536	-	250
Retainage payable	103,579	-	-	-
Deposits payable	-	-	-	-
Interfund loans payable	-	-	-	-
Deferred revenue	-	-	-	-
<b>TOTAL LIABILITIES</b>	<b>106,834</b>	<b>6,536</b>	<b>-</b>	<b>250</b>
Fund Balance:				
Restricted	-	-	556,753	213,484
Committed	469,703	153,980	-	-
<b>TOTAL FUND BALANCES</b>	<b>469,703</b>	<b>153,980</b>	<b>556,753</b>	<b>213,484</b>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b>\$ 576,536</b>	<b>\$ 160,516</b>	<b>\$ 556,753</b>	<b>\$ 213,734</b>

**COMBINING BALANCE SHEET**  
**NONMAJOR SPECIAL REVENUE FUNDS**  
December 31, 2011

	Federal way Community Center	Traffic Safety	Community Development Block Grant	Paths and Trails Reserve	Total
<b>ASSETS</b>					
Equity in pooled cash & investments	\$ 1,085,299	\$ 613,396	\$ 5,168	\$ 151,150	\$ 3,315,681
Receivables (net):					
Accounts and contracts	89,666	-	-	-	89,666
Due from other governments	-	-	77,265	657	124,794
<b>TOTAL ASSETS</b>	<b>1,174,965</b>	<b>613,396</b>	<b>82,433</b>	<b>151,807</b>	<b>3,530,141</b>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
Vouchers payable	80,701	56,319	23,722	-	170,781
Retainage payable	-	-	-	-	103,579
Deposits payable	16,206	-	-	-	16,206
Interfund loans payable	-	-	10,000	-	10,000
Deferred revenue	110,116	-	-	-	110,116
<b>TOTAL LIABILITIES</b>	<b>207,023</b>	<b>56,319</b>	<b>33,722</b>	<b>-</b>	<b>410,683</b>
Fund Balance:					
Restricted	-	-	48,712	151,807	970,756
Committed	967,942	557,077	-	-	2,148,702
<b>TOTAL FUND BALANCES</b>	<b>967,942</b>	<b>557,077</b>	<b>48,712</b>	<b>151,807</b>	<b>3,119,457</b>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b>\$ 1,174,965</b>	<b>\$ 613,396</b>	<b>\$ 82,433</b>	<b>\$ 151,807</b>	<b>\$ 3,530,141</b>

**COMBINING BALANCE SHEET**  
**NONMAJOR CAPITAL PROJECTS FUNDS**  
December 31, 2011

	City Facilities	Parks	Total
<b>ASSETS</b>			
Equity in pooled cash & investments	\$ 1,299,687	\$ 2,454,018	\$ 3,753,705
Retainage in escrow	6,922	-	6,922
<b>TOTAL ASSETS</b>	<b>1,306,610</b>	<b>2,454,018</b>	<b>3,760,628</b>
 <b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Vouchers payable	14,077	45,129	59,206
Retainage payable	6,922	-	6,922
<b>TOTAL LIABILITIES</b>	<b>20,999</b>	<b>45,129</b>	<b>66,128</b>
 Fund Balance:			
Restricted	848,727	2,043,166	2,891,893
Committed	436,883	365,723	802,606
<b>TOTAL FUND BALANCES</b>	<b>1,285,610</b>	<b>2,408,889</b>	<b>3,694,499</b>
 <b>TOTAL LIABILITIES AND FUND BALANCE</b>	 <b>\$ 1,306,610</b>	 <b>\$ 2,454,018</b>	 <b>\$ 3,760,628</b>

**COMBINING STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
For Year Ended December 31, 2011**

	Special Revenue	Capital Projects	Total
<b>REVENUES</b>			
Taxes	\$ 344,304	\$ -	\$ 344,304
Intergovernmental	851,218	65,000	916,218
Service charges and fees	2,029,629	-	2,029,629
Fines and forfeitures	945,527	-	945,527
Interest	3,366	3,307	6,673
Other	216,969	45,596	262,564
	<u>4,391,013</u>	<u>113,903</u>	<u>4,504,916</u>
<b>TOTAL REVENUES</b>			
<b>EXPENDITURES</b>			
Current:			
General government	209,568	3,661	213,229
Security of persons and property	18,050	-	18,050
Transportation	2,236,228	-	2,236,228
Physical environment	427,315	-	427,315
Economic environment	187,686	-	187,686
Culture and recreation	2,136,945	94,572	2,231,517
Capital outlay	-	470,564	470,564
	<u>5,215,792</u>	<u>568,797</u>	<u>5,784,589</u>
<b>TOTAL EXPENDITURES</b>			
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>			
	<u>(824,779)</u>	<u>(454,895)</u>	<u>(1,279,673)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in	2,082,000	1,178,000	3,260,000
Transfers out	(1,358,000)	-	(1,358,000)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>724,000</u>	<u>1,178,000</u>	<u>1,902,000</u>
<b>NET CHANGE IN FUND BALANCES</b>	(100,779)	723,105	622,327
<b>FUND BALANCES - BEGINNING</b>	3,220,529	2,971,394	6,191,923
Adjustment for GASB 54 - Beginning fund balance	(293)	-	(293)
<b>ADJUSTED FUND BALANCES - BEGINNING</b>	<u>3,220,236</u>	<u>2,971,394</u>	<u>6,191,630</u>
<b>FUND BALANCES - ENDING</b>	<u>\$ 3,119,457</u>	<u>\$ 3,694,499</u>	<u>\$ 6,813,957</u>

**COMBINING STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
NONMAJOR SPECIAL REVENUE FUNDS  
For Year Ended December 31, 2011**

	Arterial Street	Solid Waste Recycling	Special Contracts/ Studies	Hotel/Motel Lodging Tax
<b>REVENUES</b>				
Taxes	\$ -	\$ -	\$ -	\$ 185,289
Intergovernmental	488,322	146,460	-	-
Service charges and fees	344,750	297,130	-	-
Fines and forfeitures	-	-	-	-
Interest	486	112	526	223
Other	-	2,495	-	-
<b>TOTAL REVENUES</b>	<b>833,558</b>	<b>446,197</b>	<b>526</b>	<b>185,512</b>
<b>EXPENDITURES</b>				
Current:				
General government	-	-	1,247	-
Security of persons and property	-	-	-	-
Transportation	2,236,228	-	-	-
Physical environment	-	427,315	-	-
Economic environment	-	-	-	187,686
Culture and recreation	-	-	-	-
<b>TOTAL EXPENDITURES</b>	<b>2,236,228</b>	<b>427,315</b>	<b>1,247</b>	<b>187,686</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(1,402,670)</b>	<b>18,882</b>	<b>(721)</b>	<b>(2,174)</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	1,311,000	-	-	-
Transfers out	-	-	-	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>1,311,000</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>(91,670)</b>	<b>18,882</b>	<b>(721)</b>	<b>(2,174)</b>
<b>FUND BALANCES - BEGINNING</b>	<b>561,373</b>	<b>135,098</b>	<b>557,474</b>	<b>215,658</b>
<b>FUND BALANCES - ENDING</b>	<b>\$ 469,703</b>	<b>\$ 153,980</b>	<b>\$ 556,753</b>	<b>\$ 213,484</b>

**COMBINING STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
NONMAJOR SPECIAL REVENUE FUNDS  
For Year Ended December 31, 2011**

	Federal way Community Center	Traffic Safety	Community Development Block Grant	Paths and Trails Reserve	Total
<b>REVENUES</b>					
Taxes	\$ -	\$ -	\$ -	\$ 159,015	\$ 344,304
Intergovernmental	-	-	207,032	9,404	851,218
Service charges and fees	1,387,750	-	-	-	2,029,629
Fines and forfeitures	-	945,527	-	-	945,527
Interest	912	1,080	-	27	3,366
Other	214,474	-	-	-	216,969
<b>TOTAL REVENUES</b>	<b>1,603,135</b>	<b>946,607</b>	<b>207,032</b>	<b>168,446</b>	<b>4,391,013</b>
<b>EXPENDITURES</b>					
Current:					
General government	-	-	208,321	-	209,568
Security of persons and property	-	18,050	-	-	18,050
Transportation	-	-	-	-	2,236,228
Physical environment	-	-	-	-	427,315
Economic environment	-	-	-	-	187,686
Culture and recreation	2,136,945	-	-	-	2,136,945
<b>TOTAL EXPENDITURES</b>	<b>2,136,945</b>	<b>18,050</b>	<b>208,321</b>	<b>-</b>	<b>5,215,792</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(533,810)</b>	<b>928,557</b>	<b>(1,288)</b>	<b>168,446</b>	<b>(824,779)</b>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers in	721,000	-	50,000	-	2,082,000
Transfers out	-	(1,205,000)	-	(153,000)	(1,358,000)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>721,000</b>	<b>(1,205,000)</b>	<b>50,000</b>	<b>(153,000)</b>	<b>724,000</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>187,190</b>	<b>(276,444)</b>	<b>48,712</b>	<b>15,446</b>	<b>(100,779)</b>
<b>FUND BALANCES - BEGINNING</b>	<b>780,752</b>	<b>833,520</b>	<b>-</b>	<b>136,361</b>	<b>3,220,236</b>
<b>FUND BALANCES - ENDING</b>	<b>\$ 967,942</b>	<b>\$ 557,077</b>	<b>\$ 48,712</b>	<b>\$ 151,807</b>	<b>\$ 3,119,457</b>

**COMBINING STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
NONMAJOR CAPITAL PROJECTS FUNDS  
For Year Ended December 31, 2011**

	City Facilities	Parks	Total
<b>REVENUES</b>			
Intergovernmental	\$ 65,000	\$ -	\$ 65,000
Interest	1,040	2,267	3,307
Other	41,516	4,080	45,596
<b>TOTAL REVENUES</b>	<b>107,556</b>	<b>6,347</b>	<b>113,903</b>
<b>EXPENDITURES</b>			
Current:			
General government	3,661	-	3,661
Culture and recreation	-	94,572	94,572
Capital outlay	245,868	224,696	470,564
<b>TOTAL EXPENDITURES</b>	<b>249,529</b>	<b>319,268</b>	<b>568,797</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(141,974)</b>	<b>(312,921)</b>	<b>(454,895)</b>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in	750,000	428,000	1,178,000
Transfers out	-	-	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>750,000</b>	<b>428,000</b>	<b>1,178,000</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>608,026</b>	<b>115,079</b>	<b>723,105</b>
<b>FUND BALANCES - BEGINNING</b>	<b>677,584</b>	<b>2,293,810</b>	<b>2,971,394</b>
<b>FUND BALANCES - ENDING</b>	<b>\$ 1,285,610</b>	<b>\$ 2,408,889</b>	<b>\$ 3,694,499</b>

**ARTERIAL STREET**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**BUDGET AND ACTUAL**  
For Year Ended December 31, 2011

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>		<u>(Negative)</u>
<b>REVENUES</b>				
Intergovernmental	\$ 500,000	\$ 500,000	\$ 488,322	\$ (11,678)
Service charges and fees	-	320,000	344,750	24,750
Interest	2,500	2,500	486	(2,014)
<b>TOTAL REVENUES</b>	<b>502,500</b>	<b>822,500</b>	<b>833,558</b>	<b>11,058</b>
<b>EXPENDITURES</b>				
Current:				
Transportation	1,513,500	2,394,874	2,236,228	158,646
<b>TOTAL EXPENDITURES</b>	<b>1,513,500</b>	<b>2,394,874</b>	<b>2,236,228</b>	<b>158,646</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(1,011,000)</b>	<b>(1,572,374)</b>	<b>(1,402,670)</b>	<b>169,704</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	1,011,000	1,311,000	1,311,000	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>1,011,000</b>	<b>1,311,000</b>	<b>1,311,000</b>	<b>-</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>-</b>	<b>(261,374)</b>	<b>(91,670)</b>	<b>169,704</b>
<b>FUND BALANCES - BEGINNING</b>	<b>-</b>	<b>561,375</b>	<b>561,373</b>	<b>(2)</b>
<b>FUND BALANCES - ENDING</b>	<b>\$ -</b>	<b>\$ 300,001</b>	<b>\$ 469,703</b>	<b>\$ 169,702</b>

**SOLID WASTE & RECYCLING**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**BUDGET AND ACTUAL**  
For Year Ended December 31, 2011

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Intergovernmental	\$ 137,877	\$ 146,458	\$ 146,460	\$ 2
Service charges and fees	275,366	275,366	297,130	21,764
Interest	-	-	112	112
Other	-	-	2,495	2,495
<b>TOTAL REVENUES</b>	<b>413,243</b>	<b>421,824</b>	<b>446,197</b>	<b>24,373</b>
<b>EXPENDITURES</b>				
Current:				
Physical environment	415,118	430,118	427,315	2,803
<b>TOTAL EXPENDITURES</b>	<b>415,118</b>	<b>430,118</b>	<b>427,315</b>	<b>2,803</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(1,875)</b>	<b>(8,294)</b>	<b>18,882</b>	<b>27,176</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>(1,875)</b>	<b>(8,294)</b>	<b>18,882</b>	<b>27,176</b>
<b>FUND BALANCES - BEGINNING</b>	<b>136,968</b>	<b>135,098</b>	<b>135,098</b>	<b>(0)</b>
<b>FUND BALANCES - ENDING</b>	<b>\$ 135,093</b>	<b>\$ 126,804</b>	<b>\$ 153,980</b>	<b>\$ 27,176</b>

**HOTEL/MOTEL LODGING TAX**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**BUDGET AND ACTUAL**  
For Year Ended December 31, 2011

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with
	<u>Original</u>	<u>Final</u>		Final Budget - Positive (Negative)
<b>REVENUES</b>				
Taxes	\$ 155,000	\$ 155,000	\$ 185,289	\$ 30,289
Interest	300	500	223	(277)
Other	5,000	3,500	-	(3,500)
<b>TOTAL REVENUES</b>	<b>160,300</b>	<b>159,000</b>	<b>185,512</b>	<b>26,512</b>
<b>EXPENDITURES</b>				
Current:				
Economic environment	160,300	372,500	187,686	184,814
<b>TOTAL EXPENDITURES</b>	<b>160,300</b>	<b>372,500</b>	<b>187,686</b>	<b>184,814</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>-</b>	<b>(213,500)</b>	<b>(2,174)</b>	<b>211,326</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>-</b>	<b>(213,500)</b>	<b>(2,174)</b>	<b>211,326</b>
<b>FUND BALANCES - BEGINNING</b>	<b>-</b>	<b>215,657</b>	<b>215,658</b>	<b>1</b>
<b>FUND BALANCES - ENDING</b>	<b>\$ -</b>	<b>\$ 2,157</b>	<b>\$ 213,484</b>	<b>\$ 211,327</b>

**FEDERAL WAY COMMUNITY CENTER**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**BUDGET AND ACTUAL**  
For Year Ended December 31, 2011

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>		<u>(Negative)</u>
<b>REVENUES</b>				
Service charges and fees	\$ 1,281,122	\$ 1,281,122	\$ 1,387,750	\$ 106,628
Interest	-	-	912	912
Other	249,300	249,300	214,474	(34,826)
<b>TOTAL REVENUES</b>	<b>1,530,422</b>	<b>1,530,422</b>	<b>1,603,135</b>	<b>72,713</b>
<b>EXPENDITURES</b>				
Current:				
Culture and recreation	2,142,839	2,151,722	2,136,945	14,777
<b>TOTAL EXPENDITURES</b>	<b>2,142,839</b>	<b>2,151,722</b>	<b>2,136,945</b>	<b>14,777</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(612,417)</b>	<b>(621,300)</b>	<b>(533,810)</b>	<b>87,490</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	-	-	721,000	721,000
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>-</b>	<b>-</b>	<b>721,000</b>	<b>721,000</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>(612,417)</b>	<b>(621,300)</b>	<b>187,190</b>	<b>808,490</b>
<b>FUND BALANCES - BEGINNING</b>	<b>670,377</b>	<b>780,754</b>	<b>780,752</b>	<b>(2)</b>
<b>FUND BALANCES - ENDING</b>	<b>\$ 57,960</b>	<b>\$ 159,454</b>	<b>\$ 967,942</b>	<b>\$ 808,488</b>

**TRAFFIC SAFETY**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**BUDGET AND ACTUAL**  
For Year Ended December 31, 2011

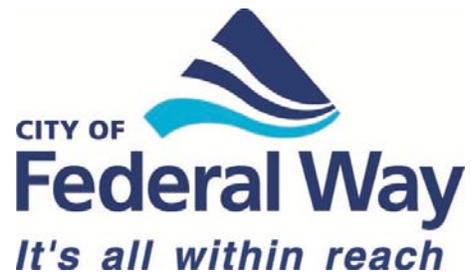
	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>		<u>(Negative)</u>
<b>REVENUES</b>				
Fines and forfeitures	\$ 830,000	\$ 830,000	\$ 945,527	\$ 115,527
Interest	-	-	1,080	1,080
<b>TOTAL REVENUES</b>	<b>830,000</b>	<b>830,000</b>	<b>946,607</b>	<b>116,607</b>
<b>EXPENDITURES</b>				
Current:				
Security of persons and property	-	50,000	18,050	31,950
<b>TOTAL EXPENDITURES</b>	<b>-</b>	<b>50,000</b>	<b>18,050</b>	<b>31,950</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>830,000</b>	<b>780,000</b>	<b>928,557</b>	<b>148,557</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers out	(1,205,000)	(1,205,000)	(1,205,000)	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(1,205,000)</b>	<b>(1,205,000)</b>	<b>(1,205,000)</b>	<b>-</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>(375,000)</b>	<b>(425,000)</b>	<b>(276,444)</b>	<b>148,557</b>
<b>FUND BALANCES - BEGINNING</b>	<b>480,288</b>	<b>833,520</b>	<b>833,520</b>	<b>(0)</b>
<b>FUND BALANCES - ENDING</b>	<b>\$ 105,288</b>	<b>\$ 408,520</b>	<b>\$ 557,077</b>	<b>\$ 148,556</b>

**PATH & TRAILS**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**BUDGET AND ACTUAL**  
For Year Ended December 31, 2011

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final		Final Budget - Positive (Negative)
<b>REVENUES</b>				
Taxes	\$ 153,000	\$ 153,000	\$ 159,015	\$ 6,015
Intergovernmental	8,000	8,000	9,404	1,404
Interest	-	-	27	27
<b>TOTAL REVENUES</b>	<b>161,000</b>	<b>161,000</b>	<b>168,446</b>	<b>7,446</b>
<b>EXPENDITURES</b>				
Current:				
General government	-	-	-	-
<b>TOTAL EXPENDITURES</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>161,000</b>	<b>161,000</b>	<b>168,446</b>	<b>7,446</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers out	(153,000)	(153,000)	(153,000)	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(153,000)</b>	<b>(153,000)</b>	<b>(153,000)</b>	<b>-</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>8,000</b>	<b>8,000</b>	<b>15,446</b>	<b>7,446</b>
<b>FUND BALANCES - BEGINNING</b>	<b>132,768</b>	<b>136,362</b>	<b>136,361</b>	<b>(1)</b>
<b>FUND BALANCES - ENDING</b>	<b>\$ 140,768</b>	<b>\$ 144,362</b>	<b>\$ 151,807</b>	<b>\$ 7,445</b>

**Budget and Actual – Debt Service Fund Description  
For the Year Ended December 31, 2011**

The *Debt Service Fund* accounts for the accumulation of resources for the payment of general obligation and special assessment bond principal, interest and related costs. Revenues for this fund consist of the City's real estate excise tax, transfers from the Utility Tax Fund, and/or other revenues designated by the City Council.



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**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
December 31, 2011

	<u>Debt Service</u>
<b>ASSETS</b>	
Equity in pooled cash & investments	\$ 3,908,649
Receivables (net):	
Taxes	<u>84,735</u>
<b>TOTAL ASSETS</b>	<u>3,993,384</u>
 <b>LIABILITIES AND FUND BALANCES</b>	
Liabilities:	
Deferred revenue	<u>127,200</u>
<b>TOTAL LIABILITIES</b>	<u>127,200</u>
 Fund Balance:	
Restricted	<u>3,866,184</u>
<b>TOTAL FUND BALANCES</b>	<u>3,866,184</u>
 <b>TOTAL LIABILITIES AND FUND BALANCE</b>	 <u><u>\$ 3,993,384</u></u>

**DEBT SERVICE FUND**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**BUDGET AND ACTUAL**  
For Year Ended December 31, 2011

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with
	<u>Original</u>	<u>Final</u>		Final Budget - Positive (Negative)
<b>REVENUES</b>				
Taxes	\$ 900,000	\$ 1,400,000	\$ 1,560,395	\$ 160,395
Interest	15,000	15,000	3,454	(11,546)
<b>TOTAL REVENUES</b>	<b>915,000</b>	<b>1,415,000</b>	<b>1,563,848</b>	<b>148,848</b>
<b>EXPENDITURES</b>				
Debt service:			-	-
Principal	496,600	496,600	457,520	39,080
Interest/fiscal charges/admin fees	666,126	666,126	614,571	51,555
<b>TOTAL EXPENDITURES</b>	<b>1,162,726</b>	<b>1,162,726</b>	<b>1,072,091</b>	<b>90,635</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(247,726)</b>	<b>252,274</b>	<b>491,757</b>	<b>239,483</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	915,000	915,000	915,000	-
Transfers out	(920,000)	(920,000)	(920,000)	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(5,000)</b>	<b>(5,000)</b>	<b>(5,000)</b>	<b>-</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>(252,726)</b>	<b>247,274</b>	<b>486,757</b>	<b>239,483</b>
<b>FUND BALANCES - BEGINNING</b>	<b>2,915,604</b>	<b>3,379,425</b>	<b>3,379,427</b>	<b>2</b>
<b>FUND BALANCES - ENDING</b>	<b>\$ 2,662,878</b>	<b>\$ 3,626,699</b>	<b>\$ 3,866,184</b>	<b>\$ 239,485</b>

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## Combining Statement – Internal Service Fund’s Description For the Year Ended December 31, 2011

### **Internal Service Funds**

Internal Service Funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of a government, or to other governments, on a cost-reimbursement basis.

The ***Risk Management Fund*** accounts for the City’s risk financing activities established to minimize adverse effects of losses associated with property and casualty, medical and dental, unemployment and worker’s compensation claims. Both risk control (to minimize the losses that strike and organization) and risk financing (to obtain finances to provide for or restore the economic damages of those losses) are involved. The City is currently self-insuring only State Unemployment Compensation. Related premiums received by the fund are used to reimburse the unemployment benefits paid to eligible individuals and to establish reserves for the payment of estimated future unemployment claims liability. The City is also currently recovering costs and building reserves for general liability including property, casualty, errors and omissions and fidelity coverage.

The ***Information Systems Fund*** was established to account for all costs associated with data processing, telecommunications and the Geographical Information System (GIS). This fund will own and depreciate all non-proprietary fund assets related to these functions, and will charge equipment/software users for both maintenance/operating costs and equipment replacement charges based on depreciation schedules.

The ***Support Services Fund*** will account for duplication, graphics and other general support services provided to departments and funds throughout the City.

The ***Fleet and Equipment Fund*** accounts for the cost of maintaining City vehicles and other motorized equipment. Rates charged to user departments are based on the full cost of maintaining equipment items, including the recovery of related depreciation expense.

The ***Buildings and Furnishings Fund*** accounts for all costs associated with the operation and maintenance of specified City buildings. City building facilities and furnishings will be owned by this Fund, and both maintenance/operating costs and depreciation recovery will be charged City departments and funds.

**INTERNAL SERVICE FUNDS**  
**COMBINING STATEMENT OF NET ASSETS**

December 31, 2011

	Risk Management	Information Systems	Support Services	Fleet and Equipment	Buildings and Furnishings	TOTAL
<b>ASSETS</b>						
Current Assets						
Equity in pooled cash & investments	\$ 5,524,276	\$ 3,608,917	\$ 279,884	\$ 5,294,581	\$ 1,481,294	\$ 16,188,952
Prepaid items	-	-	5,000	-	-	5,000
Receivables (net):						
Accounts and contracts	-	-	-	-	40,571	40,571
Due from other governments	-	-	-	-	49,060	49,060
<b>TOTAL CURRENT ASSETS</b>	<u>5,524,276</u>	<u>3,608,917</u>	<u>284,884</u>	<u>5,294,581</u>	<u>1,570,925</u>	<u>16,283,583</u>
Noncurrent assets						
Capital assets:						
Building/structures	-	-	-	-	16,497,555	16,497,555
Machinery/furniture/equipment	-	6,766,364	257,936	8,010,718	-	15,035,018
Less accumulated depreciation	-	(5,183,970)	(147,532)	(4,635,171)	(5,197,919)	(15,164,592)
<b>TOTAL NONCURRENT ASSETS</b>	<u>-</u>	<u>1,582,394</u>	<u>110,404</u>	<u>3,375,547</u>	<u>11,299,636</u>	<u>16,367,981</u>
<b>TOTAL CURRENT ASSETS</b>	<u>5,524,276</u>	<u>5,191,311</u>	<u>395,288</u>	<u>8,670,128</u>	<u>12,870,561</u>	<u>32,651,564</u>
<b>LIABILITIES</b>						
Current Liabilities:						
Vouchers/payroll payable	92,494	147,970	5,811	23,498	108,435	378,208
<b>TOTAL CURRENT LIABILITIES</b>	<u>92,494</u>	<u>147,970</u>	<u>5,811</u>	<u>23,498</u>	<u>108,435</u>	<u>378,208</u>
Long-term liabilities:						
Compensated absences payable	-	43,086	-	3,276	-	46,362
<b>TOTAL LONG-TERM LIABILITIES</b>	<u>-</u>	<u>43,086</u>	<u>-</u>	<u>3,276</u>	<u>-</u>	<u>46,362</u>
<b>TOTAL LIABILITIES</b>	<u>92,494</u>	<u>191,056</u>	<u>5,811</u>	<u>26,774</u>	<u>108,435</u>	<u>424,570</u>
<b>NET ASSETS</b>						
Invested in capital assets	-	1,582,394	110,404	3,375,547	11,299,636	16,367,981
Unrestricted	5,431,782	3,417,861	279,073	5,267,807	1,462,490	15,859,013
<b>TOTAL NET ASSETS</b>	<u>\$ 5,431,782</u>	<u>\$ 5,000,255</u>	<u>\$ 389,477</u>	<u>\$ 8,643,354</u>	<u>\$ 12,762,126</u>	<u>\$ 32,226,994</u>

**INTERNAL SERVICE FUNDS**  
**COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES**  
**IN FUND NET ASSETS**  
For Year Ended December 31, 2011

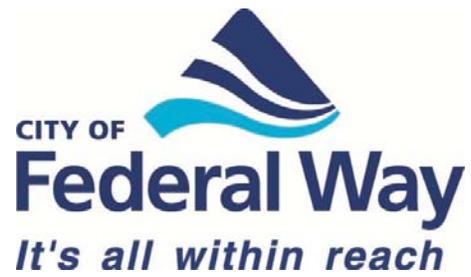
	Risk Management	Information Systems	Support Services	Fleet and Equipment	Buildings and Furnishings	TOTAL
<b>OPERATING REVENUES:</b>						
Service charges and fees	\$ 1,151,971	\$ 1,778,631	\$ 152,918	\$ 2,089,277	\$ 445,366	\$ 5,618,163
Intergovernmental	-	-	-	12,336	454,880	467,216
Miscellaneous	148,626	29,415	2,152	-	75,396	255,590
<b>TOTAL OPERATING REVENUES</b>	<b>1,300,598</b>	<b>1,808,046</b>	<b>155,070</b>	<b>2,101,613</b>	<b>975,642</b>	<b>6,340,969</b>
<b>OPERATING EXPENSES:</b>						
Personal services	-	691,247	-	37,791	86,193	815,231
Materials and supplies	-	19,490	16,466	532,752	30,509	599,218
Services and charges	23,858	549,502	96,969	372,888	368,502	1,411,720
Intergovernmental	-	105,774	-	-	-	105,774
Insurance	445,815	-	-	-	-	445,815
Claims	820,386	-	-	-	-	820,386
Depreciation	-	398,530	22,947	821,925	858,885	2,102,287
Interfund charges	-	-	-	-	-	-
<b>TOTAL OPERATING EXPENSES</b>	<b>1,290,059</b>	<b>1,764,543</b>	<b>136,383</b>	<b>1,765,356</b>	<b>1,344,090</b>	<b>6,300,430</b>
<b>OPERATING INCOME (LOSS)</b>	<b>10,539</b>	<b>43,503</b>	<b>18,687</b>	<b>336,257</b>	<b>(368,447)</b>	<b>40,538</b>
<b>NON-OPERATING REVENUES (EXPENSES):</b>						
Gain (Loss) from disposal of capital assets	-	-	-	(57,408)	(128,809)	(186,217)
Interest income	2,962	3,224	311	4,631	1,277	12,405
Interest expense	-	-	-	-	-	-
<b>TOTAL NON-OPERATING REVENUES (EXPENSES)</b>	<b>2,962</b>	<b>3,224</b>	<b>311</b>	<b>(52,777)</b>	<b>(127,532)</b>	<b>(173,812)</b>
<b>INCOME (LOSS) BEFORE TRANSFERS</b>	<b>13,500</b>	<b>46,726</b>	<b>18,998</b>	<b>283,480</b>	<b>(495,979)</b>	<b>(133,274)</b>
Capital contributions	-	136,177	-	87,609	-	223,786
Transfers in	-	-	-	13,500	-	13,500
Transfers out	(13,500)	-	-	(55,800)	-	(69,300)
<b>CHANGE IN NET ASSETS</b>	<b>0</b>	<b>182,903</b>	<b>18,998</b>	<b>328,789</b>	<b>(495,979)</b>	<b>34,712</b>
<b>NET ASSETS - BEGINNING</b>	<b>5,431,782</b>	<b>4,817,352</b>	<b>370,478</b>	<b>8,314,564</b>	<b>13,258,105</b>	<b>32,192,281</b>
<b>NET ASSETS - ENDING</b>	<b>\$ 5,431,782</b>	<b>\$ 5,000,255</b>	<b>\$ 389,477</b>	<b>\$ 8,643,354</b>	<b>\$ 12,762,126</b>	<b>\$ 32,226,994</b>

**INTERNAL SERVICE FUNDS**  
**COMBINING STATEMENT OF CASH FLOWS**  
For Year Ended December 31, 2011

	Fleet and Equipment	Buildings and Furnishings	TOTAL
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Cash received from users	\$ 2,101,613	\$ 770,201	\$ 5,966,164
Cash payments to claimants	-	-	(820,386)
Cash payments to suppliers for goods/services	(917,012)	(332,124)	(1,815,080)
Cash payments to employees	(37,516)	(88,466)	(817,984)
Cash payments to other governments for goods and services	-	-	(551,589)
Other operating receipts	-	75,396	255,589
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>1,147,085</u>	<u>425,007</u>	<u>2,216,714</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>			
Transfers in	13,500	-	13,500
Transfers out	(55,800)	-	(69,300)
NET CASH PROVIDED BY NONCAPITAL FINANCING	<u>(42,300)</u>	<u>-</u>	<u>(55,800)</u>
<b>CASH FLOWS FROM CAPITAL AND CAPITAL - RELATED FINANCING ACTIVITIES:</b>			
Acquisition of capital asset/construction work in progress	(759,902)	(493,195)	(1,598,313)
Proceeds from the sale of capital assets	39,742	-	40,473
NET CASH USED FOR CAPITAL AND CAPITAL- RELATED FINANCING ACTIVITIES	<u>(720,160)</u>	<u>(493,195)</u>	<u>(1,557,840)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Receipts of interest	4,631	1,277	12,405
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>4,631</u>	<u>1,277</u>	<u>12,405</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	389,256	(66,911)	615,479
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>4,905,325</u>	<u>1,548,205</u>	<u>15,573,475</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>5,294,581</u></u>	<u><u>1,481,294</u></u>	<u><u>16,188,952</u></u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>			
Operating Income/(loss)	336,257	(368,447)	40,539
Adjustments to reconcile operating income to net cash provided/(used) by operating activities:			
Depreciation expenses	821,925	858,885	2,102,287
(Increases)/decrease in accounts receivable	-	(40,571)	(29,741)
(Increases)/decrease in due from other governments	-	(21,554)	(21,554)
Increases/(decrease) in vouchers/accounts payable	(11,372)	66,887	195,856
Increases/(decrease) in deferred revenue	-	(67,920)	(67,920)
Increases/(decrease) in accrued payroll/compensated absences payable	275	(2,273)	(2,753)
TOTAL ADJUSTMENTS	<u>810,828</u>	<u>793,454</u>	<u>2,176,175</u>
NET CASH PROVIDED/USED BY OPERATING ACTIVITIES	<u>\$ 1,147,085</u>	<u>\$ 425,007</u>	<u>\$ 2,216,714</u>
<b>Non-cash investing, capital, and financing activities:</b>			
Other contributions of capital assets	<u>\$ 87,609</u>	<u>\$ -</u>	<u>\$ 223,786</u>

**INTERNAL SERVICE FUNDS**  
**COMBINING STATEMENT OF CASH FLOWS**  
For Year Ended December 31, 2011

	Risk Management	Information Systems	Support Services
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Cash received from users	\$ 1,162,801	\$ 1,778,631	\$ 152,918
Cash payments to claimants	(820,386)	-	-
Cash payments to suppliers for goods/services	23,794	(451,991)	(137,747)
Cash payments to employees	-	(692,002)	-
Cash payments to other governments for goods and services	(445,815)	(105,774)	-
Other operating receipts	148,626	29,415	2,152
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>69,020</u>	<u>558,279</u>	<u>17,323</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>			
Transfers in	-	-	-
Transfers out	(13,500)	-	-
NET CASH PROVIDED BY NONCAPITAL FINANCING	<u>(13,500)</u>	<u>-</u>	<u>-</u>
<b>CASH FLOWS FROM CAPITAL AND CAPITAL - RELATED FINANCING ACTIVITIES:</b>			
Acquisition of capital asset/construction work in progress	-	(269,936)	(75,280)
Proceeds from the sale of capital assets	-	731	-
NET CASH USED FOR CAPITAL AND CAPITAL- RELATED FINANCING ACTIVITIES	<u>-</u>	<u>(269,205)</u>	<u>(75,280)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Receipts of interest	2,962	3,224	311
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>2,962</u>	<u>3,224</u>	<u>311</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	58,482	292,298	(57,646)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>5,465,794</u>	<u>3,316,620</u>	<u>337,531</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>5,524,276</u></u>	<u><u>3,608,917</u></u>	<u><u>279,884</u></u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>			
Operating Income/(loss)	10,538	43,503	18,688
Adjustments to reconcile operating income to net cash provided/(used) by operating activities:			
Depreciation expenses	-	398,530	22,947
(Increases)/decrease in accounts receivable	10,830	-	-
(Increases)/decrease in due from other governments	-	-	-
Increases/(decrease) in vouchers/accounts payable	47,652	117,001	(24,312)
Increases/(decrease) in deferred revenue	-	-	-
Increases/(decrease) in accrued payroll/compensated absences payable	-	(755)	-
TOTAL ADJUSTMENTS	<u>58,482</u>	<u>514,776</u>	<u>(1,365)</u>
NET CASH PROVIDED/USED BY OPERATING ACTIVITIES	<u>\$ 69,020</u>	<u>\$ 558,279</u>	<u>\$ 17,323</u>
<b>Non-cash investing, capital, and financing activities:</b>			
Other contributions of capital assets	<u>\$ -</u>	<u>\$ 136,177</u>	<u>\$ -</u>



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**CAPITAL ASSETS USED IN THE  
OPERATION  
OF GOVERNMENTAL FUNDS**

**CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS  
COMPARATIVE SCHEDULE BY SOURCE**

December 31, 2011

	2011	2010
<b>GOVERNMENTAL FUNDS CAPITAL ASSETS</b>		
Land	\$ 302,168,217	\$ 301,270,212
Buildings	651,464	504,835
Improvements other than buildings	43,865,580	43,264,217
Machinery and equipment	184,000	184,000
Infrastructure	147,163,554	143,187,237
Construction in progress	21,158,058	16,193,940
	<hr/>	<hr/>
<b>TOTAL GOVERNMENTAL FUNDS CAPITAL ASSETS</b>	<b>515,190,873</b>	<b>504,604,441</b>
	<hr/> <hr/>	<hr/> <hr/>
<b>INVESTMENTS IN GOVERNMENTAL FUNDS CAPITAL ASSETS BY SOURCE:</b>		
General Fund	125,244,871	125,244,871
Special Revenue Funds	252,375,395	252,375,395
Capital Project Funds	121,141,891	112,933,199
Donations	16,428,716	14,050,976
	<hr/>	<hr/>
<b>TOTAL GOVERNMENTAL FUNDS CAPITAL ASSETS</b>	<b>\$ 515,190,873</b>	<b>\$ 504,604,441</b>
	<hr/> <hr/>	<hr/> <hr/>

This schedule presents only the historical cost of capital asset balances (no depreciation expenses) related to governmental funds. Accordingly, the capital assets reported in internal service funds are excluded from the above amounts. Generally, the capital assets of the internal service funds are included as governmental activities in the statement of net assets.

**CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS  
SCHEDULE BY FUNCTION AND ACTIVITY**

December 31, 2011

Function and Activity	Land	Buildings	Improvements Other than Buildings	Machinery and Equipment	Infrastructure	Construction in Progress	Total 2011	Total 2010
<b>GENERAL GOVERNMENT</b>								
Miscellaneous general government	\$ 16,775,446	\$ -	\$ 19,973	\$184,000	\$ 6,139,001	\$ 275,001	\$ 23,393,421	\$ 23,005,458
Total General Government:	16,775,446	-	19,973	184,000	6,139,001	275,001	23,393,421	23,005,458
<b>CULTURE AND RECREATION</b>								
Culture and Recreation	121,007,794	651,464	43,845,607	-	94,474,128	2,100,637	262,079,630	262,177,736
Total Culture and Recreation:	121,007,794	651,464	43,845,607	-	94,474,128	2,100,637	262,079,630	262,177,736
<b>TRANSPORTATION</b>								
Streets and Traffic	164,384,977	-	-	-	46,550,425	18,782,420	229,717,822	219,421,246
Total Transportation:	164,384,977	-	-	-	46,550,425	18,782,420	229,717,822	219,421,246
<b>Total General Fixed Asset by Function:</b>	<b>\$302,168,217</b>	<b>\$ 651,464</b>	<b>\$ 43,865,580</b>	<b>\$184,000</b>	<b>\$147,163,554</b>	<b>\$ 21,158,058</b>	<b>\$515,190,873</b>	<b>\$504,604,441</b>

This schedule presents only the historical cost of capital asset balances (no depreciation expenses) related to governmental funds. Accordingly, the capital assets reported in internal service funds are excluded from the above amounts. Generally, the capital assets of the internal service funds are included as governmental activities in the statement of net assets.

**CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS  
SCHEDULE OF CHANGES BY FUNCTION AND ACTIVITY**

For the Year Ended December 31, 2011

	Governmental Funds Capital Assets 1/1/2011	Additions	Deductions	Governmental Funds Capital Assets 12/31/2011
<b>GENERAL GOVERNMENT</b>				
Miscellaneous general government	\$ 23,005,458	\$ 387,962	\$ -	\$ 23,393,421
<b>TOTAL GENERAL GOVERNMENT</b>	<b>23,005,458</b>	<b>387,962</b>	<b>-</b>	<b>23,393,421</b>
<b>CULTURE AND RECREATION</b>				
	262,177,736	(98,106)	-	262,079,630
<b>TOTAL CULTURE AND RECREATION</b>	<b>262,177,736</b>	<b>(98,106)</b>	<b>-</b>	<b>262,079,630</b>
<b>TRANSPORTATION</b>				
Streets and traffic	219,421,246	10,296,576	-	229,717,822
<b>TOTAL TRANSPORTATION</b>	<b>219,421,246</b>	<b>10,296,576</b>	<b>-</b>	<b>229,717,822</b>
 <b>TOTAL GENERAL FIXED ASSETS</b>	 <b>\$ 504,604,441</b>	 <b>\$ 10,586,432</b>	 <b>\$ -</b>	 <b>\$ 515,190,873</b>

This schedule presents only the historical cost of capital asset balances (no depreciation expenses) related to governmental funds. Accordingly, the capital assets reported in internal service funds are excluded from the above amounts. Generally, the capital assets of the internal service funds are included as governmental activities in the statement of net assets.

## **Statistical Section**

The statistical section presents detailed information as a context for understanding what the information in the financial statements and note disclosures say about the City's overall financial health. The following are the five categories of information presented in this section.

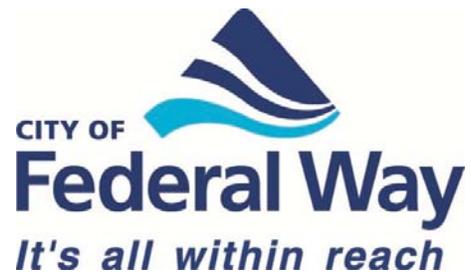
**Financial Trends** – These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.

**Revenue Capacity** – These schedules contain information to help the reader assess the City's most significant local revenue sources, property tax and sales tax.

**Debt Capacity** – These schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future.

**Demographic and Economic Information** – These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place.

**Operating Information** – These schedules contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the city provides and the activities it performs.



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**NET ASSETS BY COMPONENT**  
**Last Seven Fiscal Years**

	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
Governmental activities							
Invested in capital assets, net of related debt	\$ 70,138,350	\$ 93,835,163	\$ 439,127,122	\$ 456,600,030	\$ 442,704,401	465,671,345	470,074,905
Restricted	45,017,742	38,359,454	32,269,512	28,434,066	27,476,530	17,442,323	23,941,601
Unrestricted	13,292,837	15,051,966	23,651,674	24,773,913	44,282,822	44,613,406	38,602,445
Total governmental activities net assets	<u>128,448,929</u>	<u>147,246,583</u>	<u>495,048,308</u>	<u>509,808,009</u>	<u>514,463,753</u>	<u>527,727,074</u>	<u>532,618,951</u>
Business-type activities							
Invested in capital assets, net of related debt	42,294,741	43,697,633	45,264,105	50,494,590	50,578,649	50,563,097	50,052,887
Restricted	18,880	26,439	15,777	42,558	16,366	9,411	18,831
Unrestricted	7,206,807	7,467,417	6,550,179	5,071,617	5,115,275	5,015,367	5,398,786
Total business-type activities net assets	<u>49,520,428</u>	<u>51,191,489</u>	<u>51,830,061</u>	<u>55,608,765</u>	<u>55,710,290</u>	<u>55,587,875</u>	<u>55,470,504</u>
Primary government							
Invested in capital assets, net of related debt	112,433,091	137,532,796	484,391,227	507,094,620	493,283,050	516,234,442	520,127,792
Restricted	45,036,622	38,385,893	32,285,289	28,476,624	27,492,896	17,451,734	23,960,432
Unrestricted	20,499,644	22,519,383	30,201,853	29,845,530	49,398,097	49,628,773	44,001,231
Total primary government net assets	<u>\$ 177,969,357</u>	<u>\$ 198,438,072</u>	<u>\$ 546,878,369</u>	<u>\$ 565,416,774</u>	<u>\$ 570,174,043</u>	<u>\$583,314,949</u>	<u>\$588,089,455</u>

Source: City of Federal Way Finance

Note: All amounts are reported on the accrual basis.

**CHANGES IN NET ASSETS**  
Last Seven Fiscal Years

	2005	2006	2007	2008	2009	2010	2011
<b>Expenses</b>							
Governmental activities:							
General government	\$ 5,539,682	\$ 4,364,710	\$ 4,506,800	\$5,606,797	\$4,566,457	\$ 4,865,827	\$ 4,448,449
Security of persons and property	16,825,123	19,906,722	23,107,683	24,745,284	26,341,614	26,842,240	27,222,584
Transportation	5,451,324	5,628,100	9,986,067	7,891,298	9,448,397	9,781,800	13,539,598
Physical environment	322,151	313,388	336,588	370,718	450,914	451,470	424,466
Economic environment	3,095,391	3,162,089	3,319,955	3,382,572	3,560,620	3,175,005	2,782,435
Health and human svcs	631,133	622,761	684,984	705,976	776,854	767,108	690,643
Culture and recreation	4,789,920	5,172,663	6,506,137	6,955,442	8,089,242	8,073,804	8,105,578
Interest on long-term debt	1,541,930	1,420,691	1,122,358	901,161	811,124	685,214	614,571
Total governmental activities expenses	38,196,654	40,591,124	49,570,572	50,559,248	54,045,222	54,642,468	57,828,324
Business-type activities:							
Surface Water Mgmt	2,995,074	3,142,613	3,454,193	4,060,440	3,345,027	3,384,352	3,527,590
Dumas Bay Center	819,515	925,825	980,588	1,045,250	984,103	849,176	890,738
Total business-type activities expenses	3,814,589	4,068,438	4,434,781	5,105,690	4,329,130	4,233,528	4,418,328
Total primary government expense:	42,011,243	44,659,562	54,005,353	55,664,938	58,374,352	58,875,996	62,246,652
<b>Program Revenues</b>							
Governmental activities:							
Charges for services							
General Government	1,372,270	1,052,641	3,510,339	\$2,313,939	\$873,258	975,515	816,140
Security of Persons & Property	4,780,082	4,800,920	2,110,164	2,309,406	5,037,388	5,381,407	4,985,320
Transportation	1,351,596	1,357,333	3,119,637	513,340	1,806,846	1,961,083	2,484,058
Physical Environment	88,222	75,580	-	262,847	86,230	90,512	77,875
Economic Environment	847,686	762,603	1,009,707	1,962,624	680,908	636,534	510,483
Health	172,838	150,192	-	-	148,579	153,792	126,710
Culture & Recreation	1,322,962	1,247,495	531,041	2,561,685	1,546,931	1,618,659	1,487,099
Operating grants and contributions	1,228,979	1,512,394	22,858	1,538,476	2,172,168	9,718,920	4,597,981
Capital grants and contributions	4,250,635	5,973,071	11,457,030	8,933,154	8,452,149	9,044,477	9,716,551
Total governmental activities program revenues	15,415,270	16,932,229	21,760,776	20,395,471	20,804,457	29,580,898	24,802,216
Business-type activities:							
Charges for services	4,100,623	4,130,179	3,667,168	4,473,453	4,183,012	4,246,235	4,020,144
Operating grants and contributions	-	1,113,010	632,185	-	-	-	265,660
Capital grants and contributions	-	-	222,474	-	-	-	-
Total business-type activities program revenues	4,100,623	5,243,189	4,521,827	4,473,453	4,183,012	4,246,235	4,285,804
	19,515,893	22,175,418	26,282,603	24,868,924	24,987,469	33,827,133	29,088,020
Net (Expense)/Revenue							
Governmental activities	(22,781,384)	(23,658,895)	(27,809,796)	(30,163,777)	(33,240,765)	(25,061,570)	(33,026,108)
Business-type activities	286,034	1,174,751	87,046	(632,237)	(146,118)	12,707	(132,524)
<b>General Revenues and Other Changes in Net Assets</b>							
Governmental activities:							
Taxes							
Sales tax	11,305,537	12,409,719	13,048,624	12,144,276	10,583,298	10,708,951	10,858,381
Local Criminal Justice Sales Tax	1,817,981	1,953,822	2,145,383	2,051,524	1,743,893	1,701,120	1,795,971
Utility tax	8,292,520	9,043,449	12,796,461	13,469,136	13,549,472	12,890,310	13,068,510
Property tax	8,442,172	8,892,558	9,059,734	9,397,456	9,653,537	9,609,740	9,867,614
Real estate excise tax	4,695,984	5,499,911	4,898,537	2,590,310	1,428,985	1,403,361	1,560,395
Gambling Tax	1,501,065	1,363,468	1,489,952	1,259,783	1,127,203	493,486	511,005
Hotel/Motel Tax	158,117	175,219	191,691	188,833	154,148	149,058	185,289
Leasehold tax	2,026	4,592	7,254	5,712	4,999	5,757	6,259
Other	6,080,222	3,221,392	6,971,413	6,502,869	2,020,751	1,210,341	1,061,026
Transfers	(126,369)	(107,581)	(185,495)	123,518	(200,907)	152,768	(113,000)
Total governmental activities	42,169,255	42,456,549	50,423,554	47,733,417	40,065,379	38,324,892	38,801,450
Business-type activities:							
Other	319,432	388,729	366,031	3,447,458	46,736	17,646	12,405
Transfers	126,369	107,581	185,495	(123,518)	200,907	(152,768)	113,000
Total business-type activities	445,801	496,310	551,526	3,323,940	247,643	(135,122)	125,405
Total primary government	\$ 42,615,056	\$ 42,952,859	\$ 50,975,080	\$ 51,057,357	\$ 40,313,022	\$ 38,189,770	\$ 38,926,855
<b>Change in Net Assets</b>							
Governmental activities	\$ 19,387,871	\$ 18,797,654	\$ 22,613,758	\$ 17,569,640	\$ 6,824,613	\$ 13,263,321	\$ 5,775,342
Business-type activities	731,835	1,671,061	638,572	2,691,703	101,525	(122,415)	(7,119)
Prior Period Adjustment	-	-	-	(1,722,939)	(2,168,769)	-	-
Total primary government	\$ 20,119,706	\$ 20,468,715	\$ 23,252,330	\$ 18,538,404	\$ 4,757,370	\$ 13,140,907	\$ 5,768,223

Source: City of Federal Way Finance

Note: All amounts are reported on the accrual basis

**GOVERNMENT-WIDE REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION**  
**Last Seven Fiscal Years**

	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
<b>Program Revenues</b>							
Charges for Services	\$14,036,279	\$ 4,130,179	\$14,580,241	\$14,397,294	\$14,363,151	15,063,736	14,507,828
Operating Grants and Contributions	1,228,979	2,625,404	246,305	1,538,476	2,172,168	9,718,920	4,863,641
Capital Grants and Contributions	4,250,635	5,973,071	11,457,030	8,933,154	8,452,149	9,044,477	9,716,551
<b>General revenues</b>							
Sales tax	11,305,537	12,409,719	13,048,624	12,144,276	10,583,298	10,708,951	10,858,381
Local Criminal Justice Sales Tax	1,817,981	1,953,822	2,145,383	2,051,524	1,743,893	1,701,120	1,795,971
Utility tax	8,292,520	9,043,449	12,796,461	13,469,136	13,549,472	12,890,310	13,068,510
Property tax	8,442,172	8,892,558	9,059,734	9,397,456	9,653,537	9,609,740	9,867,614
Real estate excise tax	4,695,984	5,499,911	4,898,537	2,590,310	1,428,985	1,403,361	1,560,395
Gambling Tax	1,501,065	1,363,468	1,489,952	1,259,783	1,127,203	493,486	511,005
Hotel/Motel Tax	158,117	175,219	191,691	188,833	154,148	149,058	185,289
Leasehold tax	2,026	4,592	7,254	5,712	4,999	5,757	6,259
Other revenue	1,188,598	1,299,548	4,194,183	875,389	1,421,791	1,063,825	960,012
Unrestricted Grants & Contribution	146,000	-	-	7,448,783	284,350	-	-
Investment Earnings	2,025,243	3,194,690	3,223,005	1,678,292	385,976	179,373	113,419
Disposition of capital assets	3,039,813	(884,117)	(79,744)	(52,137)	(24,630)	(15,211)	-
<b>Total Revenues</b>	<b>62,130,949</b>	<b>55,681,513</b>	<b>77,258,656</b>	<b>75,926,281</b>	<b>65,300,490</b>	<b>72,016,903</b>	<b>68,014,875</b>
<b>Expenses/Expenditures</b>							
General Government	5,539,682	4,364,710	4,506,800	5,606,797	4,566,457	4,865,827	4,448,449
Security of Persons & Property	16,825,123	19,906,722	23,107,683	24,745,284	26,341,614	26,842,240	27,222,584
Transportation	5,451,324	5,628,100	9,986,067	7,891,298	9,448,397	9,781,800	13,539,598
Physical Environment	322,151	313,388	336,588	370,718	450,914	451,470	424,466
Economic Environment	3,095,391	3,162,089	3,319,955	3,382,572	3,560,620	3,175,005	2,782,435
Health	631,133	622,761	684,984	705,976	776,954	767,108	690,643
Culture & Recreation	4,789,920	5,172,663	6,506,137	6,955,442	8,089,242	8,073,804	8,105,578
Interest on long-term debt	1,541,930	1,420,691	1,122,358	901,161	811,124	685,214	614,571
Surface Water Management	2,995,074	3,142,613	3,455,166	4,060,440	3,345,027	3,384,352	3,527,590
Dumas Bay Centre	819,515	925,825	980,588	1,045,250	984,103	849,176	890,738
<b>Total Expenses/Expenditures</b>	<b>\$42,011,243</b>	<b>\$44,659,562</b>	<b>\$54,006,326</b>	<b>\$55,664,938</b>	<b>\$58,374,452</b>	<b>\$58,875,996</b>	<b>\$ 62,246,652</b>

Source: City of Federal Way Finance

**FUND BALANCES OF GOVERNMENTAL FUNDS**  
**Last Seven Fiscal Years**

	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
General fund							
Reserved	14,510	278,778	125,184	418,207	106,728	-	-
Unreserved	4,522,705	6,492,057	7,783,868	5,511,440	8,138,468	-	-
Nonspendable	-	-	-	-	-	81,146	104,012
Restricted	-	-	-	-	-	168,398	145,524
Committed	-	-	-	-	-	-	21,893
Assigned	-	-	-	-	-	-	-
Unassigned	-	-	-	-	-	8,188,575	12,372,719
<b>Total general fund</b>	<b>4,537,215</b>	<b>6,770,835</b>	<b>7,909,052</b>	<b>5,929,647</b>	<b>8,245,196</b>	<b>8,438,119</b>	<b>12,644,148</b>
All Other Governmental Funds							
Reserved	147,901	194,463	2,323,184	1,763,667	4,770,399	-	-
Unreserved, reported in:							
Special revenue funds	1,652,622	2,772,153	4,392,623	7,505,799	4,311,238	-	-
Capital projects funds	39,805,812	31,863,330	30,054,670	26,252,192	22,934,356	-	-
Debt service funds	3,195,705	6,217,346	-	-	-	-	-
Nonspendable	-	-	-	-	-	-	-
Restricted	-	-	-	-	-	17,776,967	19,325,489
Committed	-	-	-	-	-	18,611,612	11,642,248
Assigned	-	-	-	-	-	100,000	-
Unassigned	-	-	-	-	-	-	-
<b>Total all other governmental funds</b>	<b>\$44,802,040</b>	<b>\$41,047,292</b>	<b>\$36,770,477</b>	<b>\$35,521,658</b>	<b>\$32,015,993</b>	<b>\$36,488,580</b>	<b>\$30,967,736</b>

Source: City of Federal Way Finance

Note: Fund Balance reclassification implementation of GASB 54 for year's 2010 and forward.

**CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS**  
**Last Seven Fiscal Years**

	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
<b>Revenues</b>							
Taxes	\$ 36,310,754	\$ 39,334,751	\$ 43,584,824	\$ 41,071,781	\$ 38,192,852	\$ 37,122,069	\$ 37,831,045
Licenses, fees and permits	2,247,651	2,089,844	2,939,328	2,195,068	2,163,984	2,547,655	2,209,873
Intergovernmental	5,479,614	8,047,243	15,494,887	10,520,570	11,127,718	18,648,749	11,713,248
Charges for services	4,927,163	6,355,262	6,327,552	6,246,207	5,573,647	5,486,632	6,131,287
Development Fees	2,040,378	196,060	-	-	-	-	-
Fines and Forfeitures	720,464	805,598	1,005,293	1,433,628	2,200,092	2,783,214	2,146,524
Investment earnings	1,557,935	2,447,996	2,463,670	1,274,955	271,600	139,698	89,338
Other revenues	1,065,664	717,922	630,966	875,389	1,599,207	899,092	960,012
<b>Total revenues</b>	<b>54,349,623</b>	<b>59,994,676</b>	<b>72,446,520</b>	<b>63,617,598</b>	<b>61,129,100</b>	<b>67,627,109</b>	<b>61,081,327</b>
<b>Expenditures</b>							
General government	5,462,633	3,944,288	4,364,750	5,197,032	4,518,821	4,857,177	4,234,327
Security of persons and property	16,988,412	19,909,858	24,183,913	25,470,722	27,051,814	26,892,207	28,332,237
Transportation	5,080,577	5,373,983	6,631,030	6,634,548	6,165,540	5,700,274	7,427,408
Physical Environment	322,151	313,388	336,588	370,718	448,873	450,971	427,315
Economic Environment	3,119,831	3,055,426	3,326,986	3,344,987	3,504,767	3,161,820	2,782,537
Health	634,061	613,800	677,536	700,876	772,151	765,963	690,824
Culture and Recreation	3,859,465	4,108,813	5,300,455	5,871,288	5,845,676	5,857,621	5,821,160
Debt Service							
Principal	2,933,231	2,197,357	9,953,505	440,900	4,558,750	494,250	457,520
Interest/fiscal charges/admin fees	1,518,384	1,420,691	1,122,358	901,161	811,124	685,214	614,571
Capital Outlay	8,228,486	24,412,303	19,162,067	18,037,109	8,443,523	14,249,501	11,560,205
<b>Total expenditures</b>	<b>48,147,231</b>	<b>65,349,907</b>	<b>75,059,188</b>	<b>66,969,341</b>	<b>62,121,039</b>	<b>63,114,998</b>	<b>62,348,104</b>
Excess of revenues over (under) expenditures	6,202,392	(5,355,231)	(2,612,668)	(3,351,743)	(991,939)	4,512,111	(1,266,777)
<b>Other Financing Sources (Uses)</b>							
GO bond proceeds	-	4,100,000	-	-	-	-	-
Sale of capital assets	3,618,512	20,000	(23,786)	-	-	-	9,162
Transfers in	15,650,064	13,231,785	22,688,136	16,232,916	25,619,678	22,473,128	21,453,223
Transfers out	(16,266,811)	(13,517,681)	(23,190,280)	(16,109,398)	(25,817,857)	(22,319,725)	(21,510,423)
<b>Total other financing sources (uses)</b>	<b>3,001,765</b>	<b>3,834,104</b>	<b>(525,930)</b>	<b>123,518</b>	<b>(198,179)</b>	<b>153,403</b>	<b>(48,038)</b>
<b>Net change in fund balances</b>	<b>\$ 9,204,157</b>	<b>\$ (1,521,127)</b>	<b>\$ (3,138,598)</b>	<b>\$ (3,228,225)</b>	<b>\$ (1,190,118)</b>	<b>\$ 4,665,514</b>	<b>\$ (1,314,815)</b>
Debt service as a percentage of noncapital expenditures	12.6%	9.7%	24.7%	2.8%	11.1%	2.4%	2.1%

Source: City of Federal Way Finance

**TAXABLE SALES BY CATEGORY**  
Last Ten Fiscal Years

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Accommodation and Food Svcs	123,542,545	125,236,574	131,057,207	139,256,190	147,464,635	170,754,055	172,336,596	161,656,544	162,080,293	172,173,126
Admin, Supp, Remed Svcs	31,635,709	32,292,668	31,855,764	32,521,639	23,796,653	25,202,780	23,285,051	23,989,198	20,998,848	21,110,205
Agriculture, Forestry, Fishing	235,350	116,481	186,395	279,688	196,678	563,627	174,571	99,907	320,095	203,977
Arts, Entertain, Recreation	34,817,467	29,441,915	28,601,771	33,416,416	19,364,073	15,898,253	17,769,325	16,244,594	28,716,747	16,978,760
Company Management	32,028	34,334	4,451	35,853	221,233	501,671	127,477	28,870	9,928	2,128
Construction	143,569,453	116,671,439	132,186,499	191,476,403	256,655,702	213,216,740	147,652,627	105,372,864	107,492,060	142,973,397
Educational Services	2,312,275	2,329,638	2,232,256	2,081,425	2,170,754	2,516,022	2,487,015	3,054,167	2,972,699	3,102,022
Finance and Insurance	14,314,466	21,334,384	13,943,553	12,855,387	13,752,698	12,795,964	10,426,093	7,921,100	8,663,227	8,248,881
Health Care Social Assistance	5,131,421	5,425,838	4,796,427	4,080,451	6,250,812	6,193,370	5,342,504	5,612,490	15,803,384	7,322,602
Information	65,713,358	64,966,268	69,861,905	71,936,131	63,746,061	63,218,235	70,578,046	62,112,491	69,603,652	61,156,569
Manufacturing	18,560,838	13,779,409	12,333,001	18,549,951	19,845,265	32,336,606	25,872,050	24,193,672	17,801,791	17,271,646
Mining	2,213,631	1,736,743	1,520,579	2,098,237	1,963,909	1,994,597	1,699,300	1,341,478	3,268,934	1,463,342
Other Services	31,603,126	31,432,796	32,464,044	32,453,303	34,861,423	38,713,357	38,169,579	37,317,191	35,702,088	36,377,900
Prof, Sci, Technical Svcs	24,132,269	23,276,337	23,593,203	34,278,076	38,463,408	45,110,196	36,310,677	27,410,760	29,049,698	27,671,872
Public Administration	16,850,457	18,052,898	16,067,380	17,388,331	18,520,714	19,370,515	14,858,844	11,456,288	11,279,171	11,531,505
Real Estate, Rental, Leasing	21,067,387	22,350,732	23,194,989	28,846,250	29,046,116	30,541,290	26,728,671	24,648,187	18,840,542	28,989,345
Retail Trade	670,932,962	673,820,056	667,413,427	684,657,717	734,665,452	799,193,903	753,483,183	692,296,559	675,521,056	661,569,656
Transportation and Warehousing	1,204,127	3,473,820	1,308,585	1,281,763	1,253,647	1,183,415	1,251,568	1,246,300	1,036,483	1,246,547
Unknown	1,738,761	812,357	1,618,555	1,633,108	1,032,221	1,249,062	860,373	318,381	491,888	621,705
Utilities	587,892	945,172	470,300	419,820	349,874	-115,973	1,349,464	541,307	347,929	410,315
Wholesale Trade	53,992,471	55,923,920	60,505,731	55,771,629	56,900,436	66,306,761	67,553,891	45,478,266	51,243,480	51,315,756
<b>Total</b>	<b>\$1,264,187,991</b>	<b>\$1,243,453,779</b>	<b>\$1,255,216,019</b>	<b>\$1,365,317,769</b>	<b>\$1,470,521,763</b>	<b>\$1,546,744,447</b>	<b>\$1,418,316,906</b>	<b>\$1,252,340,615</b>	<b>1,261,243,993</b>	<b>1,271,741,256</b>

City direct sale tax rate 0.085%  
Source: City of Federal Way Finance

**ASSESSED AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY\***  
**Last Ten Fiscal Years**

Fiscal Year	Real Property	Personal Property	State Public Service Property	Total	Total City Direct Tax Rate	Percent Increase (Decrease)
2001	5,322,237,420	226,854,474	101,339,376	5,650,431,270	1.41	8.4%
2002	5,604,164,978	227,961,155	107,761,209	5,939,887,342	1.38	5.1%
2003	5,992,899,727	193,519,890	105,924,009	6,292,343,626	1.34	5.9%
2004	6,218,643,830	181,366,723	102,350,559	6,502,361,112	1.30	3.3%
2005	6,937,653,592	225,118,781	89,220,328	7,251,992,701	1.27	11.5%
2006	7,689,395,358	235,157,554	87,062,687	8,011,615,599	1.22	10.5%
2007	8,644,609,276	262,048,562	103,698,540	9,010,356,378	1.14	12.5%
2008	9,527,060,585	257,152,954	97,434,092	9,881,647,631	1.04	9.7%
2009	8,294,282,076	236,445,351	92,287,195	8,623,014,622	0.97	-12.7%
2010	7,948,924,766	228,247,721	91,163,299	8,268,335,786	1.13	-4.1%
2011	7,410,324,237	219,890,581	92,768,984	7,722,983,802	1.20	-6.6%

\* Real, personal, and state public service property has been assessed at 100% of the estimated value.

Source: King County Assessor's Office.

Note: These figures includes all final tax adjustments, omits and senior citizen exempted property. This total assessed value was reduced by senior citizen exemptions (no tax amounts) of \$62,083,163 and prior year omits of \$1,330,795 yielding a regular levy value of \$7,659,569,844. These assessed valuations are the basis for the following year's tax levy.

**PROPERTY TAX RATES AND LEVIES, DIRECT AND OVERLAPPING GOVERNMENTS  
For the Last Ten Fiscal Years**

Fiscal Year	City Direct Rates*	Overlapping Rates								Total
	City of Federal Way	Federal Way School District #210	King County	Washington State	Green River Flood Zone	Port of Seattle	Fire District #39	Library	Emergency Medical Services	
<b>TAX RATES PER \$1,000 OF ASSESSED VALUATION</b>										
2002	1.38	4.16	1.45	2.99	0.05	0.19	1.50	0.53	0.25	12.50
2003	1.34	4.28	1.35	2.90	0.05	0.26	1.50	0.54	0.24	12.46
2004	1.30	4.20	1.43	2.76	0.05	0.25	1.50	0.53	0.24	12.26
2005	1.27	4.30	1.38	2.69	0.05	0.25	1.50	0.53	0.23	12.21
2006	1.22	4.26	1.33	2.50	0.04	0.23	1.50	0.53	0.22	11.84
2007	1.14	4.19	1.29	2.33	0.04	0.23	1.50	0.50	0.21	11.42
2008	1.04	4.15	1.26	2.13	0.10	0.22	1.50	0.45	0.30	11.16
2009	0.97	4.20	1.15	1.96	0.09	0.20	1.50	0.42	0.27	10.76
2010	1.13	5.11	1.29	2.22	0.11	0.22	1.50	0.49	0.30	12.36
2011	1.20	5.36	1.34	2.28	0.11	0.22	1.39	0.57	0.30	12.77
<b>DETAIL OF TAX RATES FOR 2011</b>										
Basic Rate	1.20	-	1.27	2.28	0.11	0.22	1.39	0.50	-	6.97
Voted Rate	-	5.36	0.07	-	-	-	-	0.07	0.30	5.80
<b>TAX LEVIES</b>										
2002	7,764,913	33,552,460	304,062,327	627,772,703	799,554	39,806,235	11,061,131	64,373,926	52,497,313	1,141,690,562
2003	7,941,900	36,639,878	302,100,182	648,995,138	849,988	58,003,521	11,774,814	72,580,170	54,088,854	1,192,974,445
2004	8,117,874	38,051,680	335,853,716	647,490,235	873,826	59,657,092	12,467,237	74,860,405	55,704,127	1,233,076,192
2005	8,248,919	40,744,820	342,395,871	666,827,056	901,356	62,779,505	13,062,586	78,374,467	57,476,670	1,270,811,250
2006	8,800,989	43,672,564	357,240,140	672,185,668	922,666	62,785,749	14,108,124	85,715,008	59,154,623	1,304,585,531
2007	9,098,370	47,315,366	383,039,569	691,250,598	956,482	68,841,070	19,882,637	88,486,309	61,300,276	1,370,170,677
2008	9,300,030	52,730,549	428,433,792	723,908,902	33,945,830	75,908,664	22,288,360	91,371,026	101,861,635	1,539,748,788
2009	9,551,027	58,588,636	442,092,857	756,272,108	35,151,944	75,911,308	23,715,724	95,398,383	105,611,047	1,602,293,034
2010	9,690,241	61,404,973	438,349,236	756,411,197	35,783,324	73,504,599	20,409,747	97,015,693	102,103,088	1,594,672,098
2011	9,827,398	61,622,347	440,820,019	749,341,420	36,076,405	73,512,887	18,234,001	115,495,462	98,604,471	1,603,534,410

Source: King County Assessor's Office and King County Department of Finance.  
\*The City of Federal Way's Direct Rate has only one component which is the expense levy

**PRINCIPAL TAXPAYERS**  
**Current Year and Ten Years Ago**

Taxpayer	Type of Business	2011			2002		
		Assessed Valuation	Rank	% of Total Assessed Valuation	Assessed Valuation	Rank	% of Total Assessed Valuation (A)
Weyerhaeuser	Lumber Products	\$120,022,792	1	1.57%	\$ 178,382,643	1	3.02%
Puget Sound Energy-Elec/Gas	Electric/Gas	52,071,616	2	0.68%	52,504,721	2	0.89%
Steadfast Commons LLC	Real Estate Management	51,489,701	3	0.67%	40,778,400	4	0.69%
Harsch Investment Properties	Real Estate Management	50,846,527	4	0.66%	30,403,100	5	0.51%
LBA Realty	Real Estate Management	33,305,500	5	0.43%	-	-	-
Qwest Corporation Inc.	Communications/Telephone	27,597,020	6	0.36%	-	-	-
Forest Cove LLC	Real Estate Management	25,876,000	7	0.34%	-	-	-
KNL Vision WA LLC (formerly BRE Properties)	Real Estate Management	24,285,000	8	0.32%	16,141,000	10	0.27%
Virginia Mason	Medical Services	17,414,137	9	0.23%	14,399,353	12	0.24%
Fred Meyer	Retailer	16,963,100	10	0.22%	17,118,763	8	0.29%
IA Orchard Hotels Federal Way (formerly Apple Hospitality Five Inc.)	Hospitality	14,641,900	11	0.19%	-	-	-
Campus Business Parks LLC	Real Estate Invest/Holding	12,474,100	12	0.16%	13,282,300	13	0.22%
Costco	Retailer / Wholesaler	12,191,200	13	0.16%	15,340,924	11	0.26%
ANS LLC	Retailer	12,002,700	14	0.16%	-	-	-
		<u>\$471,181,293</u>		<u>6.15%</u>	<u>\$ 378,351,204</u>		<u>6.40%</u>

Source: King County Assessor's Office and King County Department of Finance.  
(A) 2002 assessed valuation for the City of Federal Way was \$5,912,362,755

**PROPERTY TAX LEVIES AND COLLECTIONS  
For the Last Ten Fiscal Years**

Fiscal Year	Taxes Levied for the Fiscal Year	Collected within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date		Total Outstanding Delinquent Taxes	Ratio of Delinquent Taxes to Total Tax Levy
		Current Tax Amount	Percentage of Levy		Total Tax Amount	Percentage of Levy		
2002	7,700,412	7,471,822	97.0%	228,470	7,700,292	100.0%	120	0.0%
2003	7,912,598	7,740,741	97.8%	171,565	7,912,306	100.0%	292	0.0%
2004	8,119,460	7,945,659	97.9%	173,435	8,119,094	100.0%	366	0.0%
2005	8,248,919	8,082,340	98.0%	162,202	8,244,542	99.9%	4,377	0.1%
2006	8,933,515	8,584,565	96.1%	347,410	8,931,975	100.0%	1,540	0.0%
2007	9,068,740	8,868,895	97.8%	196,962	9,065,857	100.0%	2,883	0.0%
2008	9,265,234	9,037,601	97.5%	185,130	9,222,731	99.5%	42,502	0.5%
2009	9,511,404	9,277,004	97.5%	172,687	9,449,691	99.4%	61,713	0.6%
2010	9,680,047	9,433,214	97.5%	139,340	9,572,554	98.9%	107,493	1.1%
2011	9,755,022	9,506,527	97.5%	-	9,506,527	97.5%	248,494	2.5%

Source: Most of data has been derived from the "Annual Tax Receivable Summary" prepared by the King County Finance

**RATIO OF OUTSTANDING DEBT BY TYPE**  
**For the Last Ten Fiscal Years**

Fiscal Year	Governmental Activities		Business Type Activities		Total Primary Government	Percentage of Personal Income (b)	Per Capita (b)
	General Obligation Bonds	Certificates of Participation	Public Works Trust Fund Loan				
2002	27,682,000	59,936	2,668,907		30,410,843	0.074%	363
2003	34,710,026	20,490	2,486,548		37,217,064	0.060%	446
2004	30,802,892	-	2,304,189		33,107,081	0.068%	386
2005	27,701,761	-	2,121,830		29,823,591	0.075%	348
2006	29,581,454	-	1,939,471		31,520,925	0.071%	364
2007	19,605,000	-	1,757,112		21,362,112	0.122%	244
2008	19,138,000	-	1,574,753		20,712,753	0.134%	235
2009	29,212,950	-	1,392,394		30,605,344	0.090%	346
2010	28,683,950	-	1,210,035		29,893,985	0.091%	337
2011	28,157,950	-	1,027,676		29,185,626	0.091%	327

Source: City of Federal Way Finance Division

Note: Details regarding the city's outstanding debt can be found in the notes to the financial statements.

See Demographic Statistics schedule for personal income and population data. These ratios are calculated using personal income for the prior calendar year.

(b) Per capita income information for the years 2002 to 2007 are based on 2000 U.S. Census report since this information is available for individual cities only every ten years when the census is done. 2008-2010 info for Federal Way is based on US Census Bureau, 2005-2009 American Community Survey five-year Estimates.

**RATIO OF NET GENERAL OBLIGATION BONDED DEBT TO ASSESSED VALUE  
AND NET GENERAL OBLIGATION BONDED DEBT PER CAPITA  
For the Last Ten Fiscal Years**

Fiscal Year	(A) Population	(B) Assessed Value	(C) Gross Bonded Debt	Less Debt Service Fund	Net Bonded Debt	Ratio of Net Bonded Debt To Assessed Value	Net Bonded Debt Per Capita
2002	83,850	5,912,362,755	30,410,844	5,579,129	24,831,715	0.0042	296.14
2003	83,500	6,292,343,626	28,157,950	2,599,653	25,558,297	0.0041	306.09
2004	83,590	6,418,941,601	33,113,539	2,880,857	30,232,682	0.0047	361.68
2005	85,800	7,251,992,701	29,823,591	2,886,785	26,936,806	0.0037	313.95
2006	86,530	8,011,615,599	31,520,925	6,001,415	25,519,510	0.0032	294.92
2007	87,390	9,010,356,378	21,362,112	2,147,282	19,214,830	0.0021	219.87
2008	88,040	9,825,319,904	20,712,753	1,882,041	18,830,712	0.0019	213.89
2009	88,578	8,563,964,852	30,605,344	4,225,463	26,379,881	0.0031	297.82
2010	88,760	8,206,354,959	29,893,985	3,379,427	26,514,558	0.0032	298.72
2011	89,370	7,659,569,844	29,185,626	3,866,184	25,319,442	0.0033	283.31

- (A) Sources: U.S. Census Bureau; State of Washington Office of Program Planning and Fiscal Management, Population Study Division; and the City of Federal Way Community Development Department.
- (B) The final certified Regular Levy assessed value of taxable property which was used by the King County Assessor's Office for use in calculating levy rates for the following year's tax roll. The total assessed valuation of \$7,722,983,802 has been reduced by senior citizen exemptions of \$62,083,163 and prior year omits of \$1,330, to arrive at taxable assessed valuation.
- (C) Includes Public Works Trust Fund Loans issued in 1994, 1996, 1997, and 2000; general obligation bonds issued in 2000, 2003 and 2009.

**COMPUTATION OF DIRECT AND OVERLAPPING DEBT**  
**December 31, 2011**

<u>Jurisdiction</u>	<u>(A)</u> Gross General Obligation Debt Outstanding	<u>(B)</u> Percentage Applicable to Federal Way	<u>Amount</u> Applicable to Federal Way
King County	\$ 1,189,992,489	2.42%	\$ 28,768,127
Port of Seattle	336,120,000	2.42%	8,125,717
Federal Way School District #210	191,672,024	70.96%	136,009,147
Library	123,620,000	3.71%	4,592,117
<b>Total Overlapping Debt</b>	<b>1,841,404,513</b>		<b>177,495,109</b>
 CITY OF FEDERAL WAY	 28,157,950 (C)	 100.00%	 28,157,950
<b>Total Direct and Overlapping Debt</b>	<b><u>\$ 1,869,562,463</u></b>		<b><u>\$ 205,653,059</u></b>

(A) Total general obligation bonds outstanding at the year end, exclusive of refunded bonds.  
Source is King County Department of Finance.

(B) Determined by ratio of assessed valuation of property subject to taxation in overlapping unit to  
valuation of property subject to taxation in reporting unit.

(C) Includes general obligation bonds issued in 2000, 2003 and 2009.  
Source is City of Federal Way Finance

**COMPUTATION OF LIMITATION OF INDEBTEDNESS  
December 31, 2011**

DESCRIPTION	General Debt Capacity		Excess Levy Open Space and Park	Excess Levy Utility Purposes	Total Debt Capacity
	(Limited) Councilmanic	(Unlimited) Excess Levy			
Statutory debt limit:					
(2011 AV=\$7,722,983,802) (A)					
1.50% AV @ 100%	\$ 115,844,757	\$ (115,844,757)	\$ -	\$ -	\$ -
2.50% AV @ 100%	-	193,074,595	193,074,595	193,074,595	579,223,785
Add: Cash on hand for debt redemption (B)	7,193,006	-	-	-	7,193,006
Less: Bonds and COPs outstanding	(28,157,950)	-	-	-	(28,157,950)
Remaining Debt Capacity	\$ 94,879,813	\$ 77,229,838	\$ 193,074,595	\$ 193,074,595	\$ 558,258,841
Total Remaining "General" Capacity	<u>\$172,109,651</u>				

- (A) This figure represents the City's final total taxable assessed valuation (AV) for 2011 which was used to determine the 2012 property tax levy.
- (B) Reflects ending fund balance in the Debt Service Fund and Utility Tax Fund as of December 31, 2011.
- (C) Combined total for Councilmanic, Financing Lease, and Excess Levy capacities.

Fiscal Year	Debt limit	Total net debt applicable to limit	Legal debt margin	Total net debt applicable to the limit as a % of debt limit
2002	443,427,207	(14,289,859)	429,137,348	3.22%
2003	469,715,580	(31,327,803)	438,387,777	6.67%
2004	471,925,773	(26,881,086)	445,044,687	5.70%
2005	487,677,084	(23,478,555)	464,198,529	4.81%
2006	543,899,454	(21,459,145)	522,440,309	4.32%
2007	600,871,170	(12,012,597)	588,858,573	3.91%
2008	736,889,175	(11,615,105)	725,274,070	1.58%
2009	741,123,572	(22,913,431)	718,210,141	3.09%
2010	615,476,622	(22,291,874)	593,184,748	3.62%
2011	579,223,785	(20,964,944)	558,258,841	3.62%

Source: City of Federal Way Finance  
(A) King County Department of Finance

Note: Under state finance law, the city's outstanding general obligation debt should not exceed 15 percent of total assessor's property value.  
By law, the general obligation debt subject to the limitation may be offset by amounts set aside for repaying general obligation bonds.

**RATIO OF ANNUAL DEBT SERVICE EXPENDITURES FOR GENERAL OBLIGATION  
BONDED DEBT TO TOTAL GENERAL GOVERNMENTAL EXPENDITURES NET OF DEBT SERVICE EXPENSE**

Fiscal Year	Principal	Interest *	Total Debt Service	Total General Governmental Expenditures	Ratio of Debt Service to General Governmental Expenditures
2002	2,834,084	1,651,197	4,485,281	36,819,618	12.2%
2003	14,159,881	1,703,165	15,863,046	50,550,741	31.4%
2004	3,080,677	1,796,791	4,877,468	40,610,863	12.0%
2005	3,100,546	1,531,364	4,631,910	40,108,790	11.5%
2006	2,219,676	1,418,843	3,638,519	41,086,555	8.9%
2007	9,976,455	1,153,300	11,129,755	56,186,140	19.8%
2008	467,000	841,542	1,308,542	51,278,215	2.6%
2009	4,585,000	824,693	5,409,693	54,585,436	9.9%
2010	525,000	629,419	1,154,419	50,093,838	2.3%
2011	526,000	622,903	1,148,903	49,482,421	2.3%

Source: City of Federal Way Finance

Note: \* Interest excludes bond issuance and debt registration costs.

**DEMOGRAPHIC STATISTICS**

Fiscal Year	Population	Personal Income Sea-Tac-Bel [D]	Per Capita Income [C]	Median Age [C]	Education Level in Years of Formal Schooling	School Enrollment (A)	Unemployment Rate (B)
2002	83,850	119,343,435,000	22,451	32.5	13.0	22,194	7.3%
2003	83,500	121,624,885,000	22,451	32.5	13.0	22,265	7.4%
2004	83,590	133,156,997,000	22,451	32.5	13.0	22,395	6.2%
2005	85,800	136,859,162,000	22,451	32.5	13.0	22,383	5.0%
2006	86,530	149,858,462,000	22,451	32.5	13.0	22,184	4.5%
2007	87,390	162,934,794,000	26,137	37.2	13.0	21,775	4.1%
2008	88,040	169,798,086,000	27,730	37.0	13.0	21,622	5.1%
2009	88,578	171,680,771,000	27,638	36.6	13.0	21,700	8.9%
2010	88,760	176,084,963,000	27,307	35.1	13.0	21,630	9.7%
2011	89,370	N/A	26,668	35.2	13.0	21,608	8.2%*

(A) Includes public school enrollment. Kindergarten is included though not State mandated.

(B) Unemployment rates came from the US Department of Labor, Bureau of Labor Statistics.  
\*Rate is preliminary as of April 16, 2012.

(C) Per capita income and Median age information for the years 2002 to 2006 are based on 2000 U.S. Census report since this information is available for individual cities only every ten years when the census is done.  
2007 info for Federal Way is based on 2006 US Census American Community Survey.  
2008-2010 info for Federal Way is based on 2005-2009 American Community Survey five-year Estimates.  
2011 info for Federal Way is based on 2006-2010 American Community Survey five-year Estimates.

(D) Personal income information is for Seattle-Tacoma-Bellevue area provided by the Bureau of Economic Analysis, information is not available for Federal Way. 2011 data for Personal Income was not available at the time of publication.

Sources: Data was obtained from U. S. Census Bureau  
US Department of Labor, Bureau of Labor Statistics  
US Department of Commerce, Bureau of Economic Analysis  
School data was provided by the Federal Way School District.

**PRINCIPAL EMPLOYERS**  
Current Year and Ten Years Ago

Taxpayer	Type of Business	2011			2002		
		Number of Employees	Rank	% of Total City Employment	Number of Employees	Rank	% of Total City Employment
Federal Way Public Schools	Educational Services	1,951	1	6.74%	2,885	1	9.90%
Weyerhaeuser Company	Lumber Products	1,263	2	4.36%	1,258	2	4.32%
Lifebridge Inc	Business Services	1210	3	4.18%	-	-	-
St Francis Hospital	Medical Services	875	4	3.02%	744	3	2.55%
World Vision Inc	Christian Relief Agency-Nonprofi	852	5	2.94%	663	5	2.28%
Wild Waves Theme Park	Amusement Center	632	6	2.18%	734	4	2.52%
Us Postal Service - Bulk Mail	Postal Service	616	7	2.13%	572	6	1.96%
City Of Federal Way	Government Services	476	8	1.64%	440	7	1.51%
Wal-Mart Supercenter #3794	Retail	386	9	1.33%	225	11	0.77%
Virginia Mason Federal Way	Medical Services	235	10	0.81%	235	10	0.81%
Fred Meyer	Retail	220	11	0.76%	214	14	0.73%
Costco Wholesale Corporation	Wholesale	214	12	0.74%	251	8	0.86%
Wal-Mart Store #2571	Retail	183	13	0.63%	-	-	-
Target Store #1947	Retail	178	14	0.62%	130	29	0.45%
Devry University	Educational Services	167	15	0.58%	-	-	-

Source: City of Federal Way Business License

Note: Principal Employers - includes both full-time and part-time employees.

**PROPERTY VALUE AND CONSTRUCTION**

Year	Commercial Construction (A)		Residential Construction (A)		Multi-Family Construction (A)	
	Permits	Value (In Thousands)	Permits	Value (In Thousands)	Permits	Value (In Thousands)
2002	393	59,075	318	38,176	1	-
2003	240	25,695	290	37,775	1	1,042
2004	335	64,522	289	82,658	0	-
2005	289	124,985	591	111,504	0	-
2006	332	78,194	455	70,862	1	2,027
2007	370	59,666	388	55,321	33	11,487
2008	256	45,810	258	17,554	91	26,025
2009	132	45,343	275	13,057	76	20,802
2010	149	31,043	321	19,676	75	2,686
2011	134	12,744	301	19,454	47	846

Sources & Notes:

- (A) Federal Way Community Development Department. Commercial construction includes alterations. Other building-related permits (plumbing, mechanical, fire alarm, etc.) numbering 2,385 and valued at \$6,229,017 have been excluded.

**CAPITAL ASSETS BY FUNCTION**  
**Last Ten Fiscal Years**

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
<b>Transportation</b>										
Street (Center Line Miles)	224.48	224.48	224.48	230.84	233.84	233.84	234.72	234.72	242.90	248.23
Signals WSDOT-owned and maintained	4	4	4	4	5	5	5	5	5	5
Signals City-owned & County-maintained	67	70	71	71	74	74	76	76	76	76
Street lights City-owned and maintained	810	1,038	1,050	1,050	1,214	1,214	1,463	1,467	1,509	1,554
Street lights City-owned and PSE-maintained	-	644	644	644	644	644	644	644	644	644
Street lights PSE-owned and maintained	2,850	1,975	1,975	1,975	1,975	1,975	1,975	1,975	1,975	1,975
<b>Culture &amp; Recreation</b>										
Developed Parks - Acreage	493.5	500.25	500.25	522.9	522.9	524.49	524.49	524.49	524.49	524.49
Developed Parks - # of Parks	28	31	32	32	32	32	32	32	32	32
Undeveloped Parks - Acreage	352	356.24	356.24	543.5	543.5	543.46	551.12	551.12	551.12	551.12
Undeveloped Parks - # of Parks	20	21	21	21	21	21	22	22	22	22
Tennis Courts City-Owned	9	9	9	11	11	11	11	11	11	11
Tennis Courts - Public	10	10	16	22	22	22	22	22	22	22
Swimming Pools City-Owned	0	1	1	1	1	1	1	1	1	1
Swimming Pools County-Owned	2	1	1	1	1	1	1	1	1	1
Trails - Miles	4	4	4	6	6	6	6	6	6	6
Trails - # of Trails	2	2	2	2	2	2	3	3	3	3
Community Centers/Recreation Facilities	2	2	2	2	2	2	1	1	1	1

Source: City of Federal Way Public Works and Parks Department

**OPERATING INDICATORS BY FUNCTION**  
Last Ten Fiscal Years

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
<b>SECURITY OF PERSONS &amp; PROPERTY</b>										
<b>Police Information</b>										
Offenses:										
Forcible Rape (including attempts)	34	50	50	55	64	48	30	51	50	38
Robbery	108	125	121	153	146	129	170	198	152	119
Criminal Homicide	4	2	-	7	1	3	10	5	5	4
Aggravated Assault	120	120	109	101	120	107	115	115	118	99
Vehicle Theft	1,206	1,204	1,118	1,573	1,199	939	816	561	741	694
Burglary (commercial & residential)	677	672	759	800	753	739	800	741	828	752
Larceny	3,347	3,145	3,257	3,786	3,230	3,159	2,933	3,231	3,141	3,067
Arson	29	14	23	25	26	18	13	13	11	11
Citations:										
Traffic	13,439	18,411	13,219	11,402	11,931	14,043	19,339	20,678	18,094	17,226
Red Light Photo	-	-	-	-	-	-	3,813	13,002	25,691	15,340
<b>ECONOMIC ENVIRONMENT</b>										
<b>Building Related Permits &amp; Values</b>										
Building Permits	712	531	624	880	788	791	605	483	545	482
Estimated Value (In Millions \$)	97.3	\$64.5	147.2	\$236.5	\$151.1	\$126.5	\$89.4	\$79.2	\$53.4	\$33.0
Other Building Related Permits	2024	1779	1958	2705	2550	2690	2370	2209	2423	2385
Estimated Value (In Millions \$)	\$2.5	\$ 2.4	\$ 2.5	\$ 3.9	\$ 4.2	\$ 5.5	\$ 7.0	\$ 5.6	\$ 5.9	\$ 6.2

Source: City of Federal Way Police Department and Community Development Department  
 Note: 2009 Police Information has been updated from 2009 report due to new/further information.

## CITY GOVERNMENT EMPLOYEES FULL-TIME EQUIVALENT - HISTORY

Department	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
<b>Mayor's Office</b>	<b>6.00</b>	<b>6.00</b>	<b>6.00</b>	<b>6.00</b>	<b>6.00</b>	<b>10.00</b>	<b>9.75</b>	<b>7.63</b>	<b>7.63</b>	<b>5.00</b>
Administration	5.00	5.00	5.00	5.00	5.00	5.50	5.25	3.13	3.13	4.00
Economic Development	1.00	1.00	1.00	1.00	1.00	1.50	1.50	1.50	1.50	-
Government Affairs	-	-	-	-	-	3.00	3.00	3.00	3.00	-
Human Services	-	-	-	-	-	-	-	-	-	1.00
<b>City Council</b>	<b>3.50</b>	<b>4.50</b>	<b>4.50</b>							
<b>Municipal Court</b>	<b>13.55</b>	<b>13.55</b>	<b>12.55</b>	<b>12.55</b>	<b>12.55</b>	<b>14.00</b>	<b>14.00</b>	<b>13.00</b>	<b>13.00</b>	<b>13.00</b>
<b>Human Resources</b>	<b>7.00</b>	<b>6.50</b>	<b>6.50</b>	<b>5.00</b>	<b>5.00</b>	<b>5.00</b>	<b>5.25</b>	<b>5.25</b>	<b>5.25</b>	<b>4.50</b>
City Clerk	2.50	2.00	2.00	1.50	1.50	1.50	1.75	1.75	1.75	1.75
Human Resources	4.50	4.50	4.50	3.50	3.50	3.50	3.50	3.50	3.50	2.75
<b>Finance</b>	<b>8.50</b>	<b>9.50</b>	<b>9.50</b>	<b>8.50</b>	<b>8.50</b>	<b>9.50</b>	<b>8.00</b>	<b>7.60</b>	<b>7.60</b>	<b>7.00</b>
Administration	1.50	1.50	1.50	1.50	1.50	1.50	-	-	-	-
Finance	7.00	8.00	8.00	7.00	7.00	8.00	8.00	7.60	7.60	7.00
<b>Information System</b>	<b>9.00</b>	<b>9.00</b>	<b>9.00</b>	<b>8.50</b>	<b>8.50</b>	<b>10.60</b>	<b>10.60</b>	<b>10.00</b>	<b>9.60</b>	<b>7.00</b>
<b>Law</b>	<b>11.00</b>	<b>10.38</b>	<b>10.60</b>	<b>10.60</b>	<b>10.60</b>	<b>13.00</b>	<b>13.00</b>	<b>12.00</b>	<b>12.00</b>	<b>11.00</b>
Civil Legal Services	5.05	5.80	5.80	5.80	5.80	5.80	5.80	4.80	4.80	4.80
Criminal Prosecution Services	5.95	4.58	4.80	4.80	4.80	7.20	7.20	7.20	7.20	6.20
<b>Community &amp; Econ Developmen</b>	<b>28.55</b>	<b>29.60</b>	<b>29.60</b>	<b>28.70</b>	<b>28.70</b>	<b>30.49</b>	<b>32.00</b>	<b>30.00</b>	<b>28.90</b>	<b>19.00</b>
Administration	4.50	4.50	4.50	4.50	4.50	4.50	4.50	5.00	5.00	3.50
Planning	8.80	8.80	8.80	8.80	8.80	8.75	8.75	8.00	7.00	6.00
Building	11.25	12.30	12.30	12.30	12.30	13.25	14.25	13.00	13.00	9.00
Human Services	3.00	3.00	3.00	2.50	2.50	3.00	3.50	3.00	3.00	-
Neighborhood Development	1.00	1.00	1.00	0.70	0.70	1.00	1.00	1.00	0.90	-
Economic Development	-	-	-	-	-	-	-	-	-	0.50
<b>Police</b>	<b>151.00</b>	<b>155.00</b>	<b>155.00</b>	<b>152.00</b>	<b>155.00</b>	<b>169.00</b>	<b>169.00</b>	<b>164.00</b>	<b>161.00</b>	<b>135.00</b>
Administration	2.00	2.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
Support Services	59.00	55.00	54.00	53.00	55.00	61.00	61.00	61.00	58.00	51.00
Field Operations	90.00	98.00	98.00	96.00	97.00	105.00	105.00	100.00	100.00	81.00
<b>Parks, Rec. &amp; Cultural Svcs.</b>	<b>27.00</b>	<b>30.40</b>	<b>30.40</b>	<b>30.20</b>	<b>31.20</b>	<b>44.25</b>	<b>44.25</b>	<b>39.75</b>	<b>39.75</b>	<b>36.45</b>
Administration	2.00	1.80	1.80	1.80	1.80	1.80	2.80	1.35	1.35	1.35
Planning	1.00	1.00	1.00	1.00	1.00	1.00	-	-	-	-
Kenneth Jones Pool	-	3.00	3.00	3.00	3.00	-	-	-	-	-
General Recreation	6.50	6.60	6.60	6.60	6.60	7.10	7.10	4.80	4.80	5.50
Community Center	-	-	-	-	-	12.35	12.35	13.35	13.35	13.35
Dumas Bay Centre	2.00	2.00	2.00	2.00	3.00	3.00	2.75	2.75	2.75	2.75
Knutzen Family Theatre	1.00	1.50	1.50	1.50	1.50	1.50	1.75	-	-	-
Parks Maintenance	14.00	14.00	14.00	13.80	13.80	17.00	17.00	17.00	17.00	13.00
Building	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
<b>Public Works</b>	<b>38.50</b>	<b>41.50</b>	<b>41.60</b>	<b>41.60</b>	<b>42.60</b>	<b>44.00</b>	<b>44.00</b>	<b>42.95</b>	<b>41.95</b>	<b>38.95</b>
Administration	2.10	2.10	2.10	2.10	1.90	1.85	1.85	2.35	2.35	2.25
Development Services	6.45	6.45	5.80	5.80	6.50	6.45	6.45	4.45	4.45	4.20
Traffic Services	4.10	5.10	5.10	5.10	5.10	6.10	6.10	6.10	5.10	2.35
Street Services	10.00	11.00	11.70	11.70	11.00	11.50	11.00	10.50	10.50	10.60
Emergency Management	-	-	-	-	1.00	1.00	1.00	1.00	1.00	1.00
Solid Waste & Recycling	1.60	1.60	1.60	1.60	1.70	1.70	1.70	1.70	1.70	1.70
Surface Water Management	14.25	15.25	15.30	15.30	15.40	15.40	15.40	16.35	16.35	16.35
Fleet & Equipment	-	-	-	-	-	-	0.50	0.50	0.50	0.50
<b>Total</b>	<b>303.60</b>	<b>314.93</b>	<b>314.25</b>	<b>307.15</b>	<b>312.15</b>	<b>353.34</b>	<b>353.35</b>	<b>335.68</b>	<b>331.18</b>	<b>281.40</b>

Source: City of Federal Way Finance Division

**SALARIES AND SURETY BONDS OF PRINCIPAL OFFICIALS**  
DECEMBER 31, 2011

<b>LEGISLATIVE BODY</b>		
<b>POSITION</b>	<b>EMPLOYEE</b>	<b>ANNUAL SALARY</b>
MAYOR	SKIP PRIEST	\$112,800
DEPUTY MAYOR	DINI DUCLOS	\$13,800
COUNCIL MEMBERS	JIM FERRELL	\$13,800
	LINDA KOCHMAR	\$13,800
	MICHAEL PARK	\$13,800
	JEANNE BURBIDGE	\$13,800
	JACK DOVEY	\$13,800
	ROGER FREEMAN	\$13,800
<b>ADMINISTRATIVE STAFF</b>		
<b>POSITION</b>	<b>EMPLOYEE</b>	<b>ANNUAL SALARY</b>
CITY ATTORNEY	PAT RICHARDSON	\$134,484
CITY CLERK	CAROL MCNEILLY	\$77,664
COMMUNITY & ECONOMIC DEVELOPMENT DIRECTOR	PATRICK DOHERTY	\$115,680
FINANCE DIRECTOR	THO KRAUS	\$121,848
ADMINISTRATIVE SERVICES DIRECTOR	BRYANT ENGE	\$141,036
PARKS AND PUBLIC WORKS DIRECTOR	CARY M. ROE	\$141,036
POLICE CHIEF	BRIAN J. WILSON	\$135,384

Source: City of Federal Way Finance Division

NOTE: In accordance with State of Washington legal statues, individual fidelity coverage of not less than \$100,000 exists for the Mayor, City Attorney, Community & Economic Development Director, Finance Director, Administrative Services Director, Parks and Public Works Director, and Police Chief.

**MISCELLANEOUS STATISTICAL INFORMATION**

**LOCAL TAXES ON BUSINESSES**

Franchise Tax - Cable TV.....	5.00%
Gambling Taxes:	
Bingo/Raffles.....	5.00%
Amusement/Games.....	2.00%
Punchboard/Pull Tabs.....	3.00%
Cardrooms.....	10.00%
Local Sales Tax (Collected by the State).....	9.50%
Food & Beverage Tax (Collected by the State)....	0.50%

**FIRE AND EMERGENCY MEDICAL RESPONSE INFORMATION**

Fire and Emergency Medical Response information reflects the greater Federal Way area, which is served by South King Fire & Rescue.

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Fire and Other Responses	3,055	3,117	2,896	3,210	865	639	1,083	1,147	1,041	934
Emergency Medical	7,422	8,042	8,263	8,636	11,164	11,350	12,058	11,077	11,460	11,914

**PUBLIC EDUCATION**

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
23 Elementary Schools	11,990	9,854	9,916	9,806	9,733	9,612	9,594	9,594	9,560	9,673
9 Middle Schools (incl. Public Academy)	5,509	5,458	5,476	5,271	5,183	5,139	5,234	5,203	5,235	5,205
5 High Schools	4,316	6,625	6,650	7,004	6,954	6,720	6,531	6,637	6,547	6,409
1 Internet Academy (K-12)	379	328	353	302	314	304	263	266	288	321
	22,194	22,265	22,395	22,383	22,184	21,775	21,622	21,700	21,630	21,608

2,700 Staff members

**TAXABLE SALES (in millions)**

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Retail Sales	\$1,298	\$1,237	\$1,239	\$1,331	\$1,471	\$1,540	\$1,458	\$1,257	\$1,261	\$1,277
Real Estate Sales	\$503	\$570	\$616	\$939	\$988	\$963	\$536	\$208	\$238	\$315