



Dumas Bay Centre

City of Federal Way, WA

2012

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR YEAR ENDED DECEMBER 31, 2012

~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 308th 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.



2012 COMPREHENSIVE ANNUAL FINANCIAL REPORT

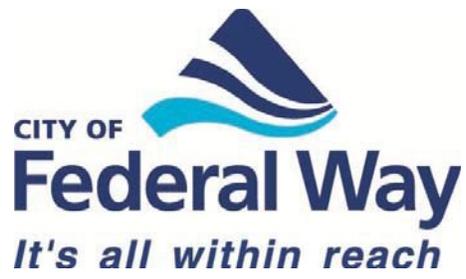
For the Year Ended December 31, 2012

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Prepared by the Finance Department

Finance Director
Tho Kraus



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**COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the Year Ended December 31, 2012**

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June 26, 2013

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, 2012 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, as agreed upon by most economists ended during 2010. Most economic indicators during 2012 were still below the pre-Great Recession levels. Consumers have lost more ground since the recession ended; groups hit harder than average include young people. The housing market saw slight improvements due to rise in personal income and confidence and decline in mortgage interest rate.

During 2012, the economy has continued to recover from the Great Recession but at a slower pace than expected. We saw slight improvements in the unemployment rate but still well above the pre-Great Recession level. Meanwhile, inflation overall has been subdued although we have seen price of crude oil fluctuating and farm prices brought on by the summers' drought. Consumer price inflation, as measured by personal consumption expenditures price index has averaged by exactly 2 percent since the end of the Great Recession. The stock market, as measured by the Dow Jones Industrial average, S&P 500, and NASDAQ finished 2012 on a positive note at 7%, 13%, and 16%, respectively.

Nationally, the U.S. Bureau of Economic Analysis (BEA) indicates Gross Domestic Product (GDP) increased at an annualized rate of 2.2% in 2012 versus an annualized rate of 1.8% in 2011. This increase was anchored by personal consumer spending, construction, and exports partly offset by decreased spending by federal, state, and local government.

Seattle-Tacoma-Bellevue annual unemployment rated 7.4%, as measured by the Bureau of Labor Statics, and is down from the peak of 9.7%. 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. During 2012 King County saw an increase in short sales by 53% versus 12% for 2011. Short sales are an alternative to foreclosure whereas in foreclosure, the bank takes possession of the home and creates an increase number of unoccupied homes for sale. Bank-owned property sales accounted for 14% of all sales in King County during 2012, down from 23% in 2011.

ECONOMIC TRENDS

Federal Way is the eleventh largest city, in Washington State with a population of 89,460 as of April 1, 2012. 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 2012, there were 35,493 housing units in Federal Way, an increase of less than 1% over 2011. 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 2012 is estimated at 32,741. Major employers are; Federal Way Public Schools, Xerox Commercial Services, Weyerhaeuser, St. Francis Community Hospital, World Vision, and U.S. Postal Services.

Sales tax collected in 2012 total \$10.5 million, and is below 2011 by \$324 thousand. The retail sector of the local economy is anchored by the following areas; the first is South 348th 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 54%; services 22%; construction 8%; wholesale trade 4%; information 5%, manufacturing 1%, and other 6%.

In 2012, new construction assessed value totaled \$20.9 million or approximately 0.3% of the City's 2012 assessed valuation. The total assessed value of property in Federal Way was \$7.1 billion, which is approximately 7% lower than the 2011 assessed valuation of \$7.7 billion.

Real Estate sales decreased 3% to approximately \$304 million in 2012 as compared to \$314 million in 2011. A total of 598 building permits and 2,960 other building related permits were issued in 2012. Estimated market value was \$58.0 million and \$5.4 million respectively. Significant building permits include: Wild Buffalo Wings, DaVita, Northlake Rim, Wynstone, King County Library System, and Federal Way Public Schools

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

During 2012, the City of Federal Way completed two major transportation infrastructure projects; the first phase of the Triangle Intersection Improvement Project and the Pacific Highway improvements between S. 304th and Dsh Pt. Road. To date, Pacific Highway retrofits cost \$80 million. Starting with detailed designs enabled the City to build the most expensive – and most valuable – infrastructure project in our history, with the City's \$11 million leveraged by \$69 million in outside funding.

During last December discussions on the 2013-2014 budgets, the Council and Mayor agreed to fund two additional officers. We currently have 125 officers authorized, which put the City of Federal Way at 1.4 officers per thousand - a comparable per capita figure to surrounding cities. With limited resources, though, the Federal Way Police Department has also found new ways to fight crime and has led the way in innovative policing strategies. First off, Chief Wilson reorganized the department last year, reducing management and increasing the number of officers on the street. The City created a Home Burglary Emphasis team that has caught several of the high-volume burglars that were responsible for a large number of thefts. The City also expanded the successful SafeCity program to neighborhoods, testing a pilot program that uses web-based tools to increase communications between officers and neighbors.

With respect to the retail sector, we have seen growth. The Commons is adding a major retailer, Kohl's. Buffalo Wild Wings, The Ram, Mooyah Burgers, Hobby Lobby, Home Goods are some of the major new retailers and restaurants that have joined our community.

In addition to the Toys "R" Us property located at 31510 20th Avenue South, there is a proposal with private investment to develop a Performing Arts & Conference Center and hotel. Next to the Toys R Us site, AMC site, we are proposing building an urban park on about half the 4 acres and partnering with a developer to develop the remainder of the site with high quality mixed uses, retail and office, possible residential.

The City successfully transitioned from the King County Consortium to a fully staffed and managed Community Development Block Grant entitlement program. Some of the advantages of a direct entitlement community include: more dollars allocated to directly for the City's grant administration and planning; more dollars allocated to public service programs; and the City may award as many Community Economic Revitalization Funding (CERF) grants as it deems appropriate. Overall, the benefits are more control of and greater grant funds retained by the City.

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.

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 2012 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 2012; which is the 19th 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, 2011. The City of Federal Way has received a Certificate of Achievement for the last twenty-two years (fiscal years ended 1990 – 2011). 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 4its 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 department. 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

CITY OFFICIALS



SKIP PRIEST
Mayor



JIM FERRELL
Deputy Mayor



LINDA KOCHMAR
Councilmember



SUSAN HONDA
Councilmember



JEANNE BURBIDGE
Councilmember



BOB CELSKI
Councilmember



ROGER FREEMAN
Councilmember

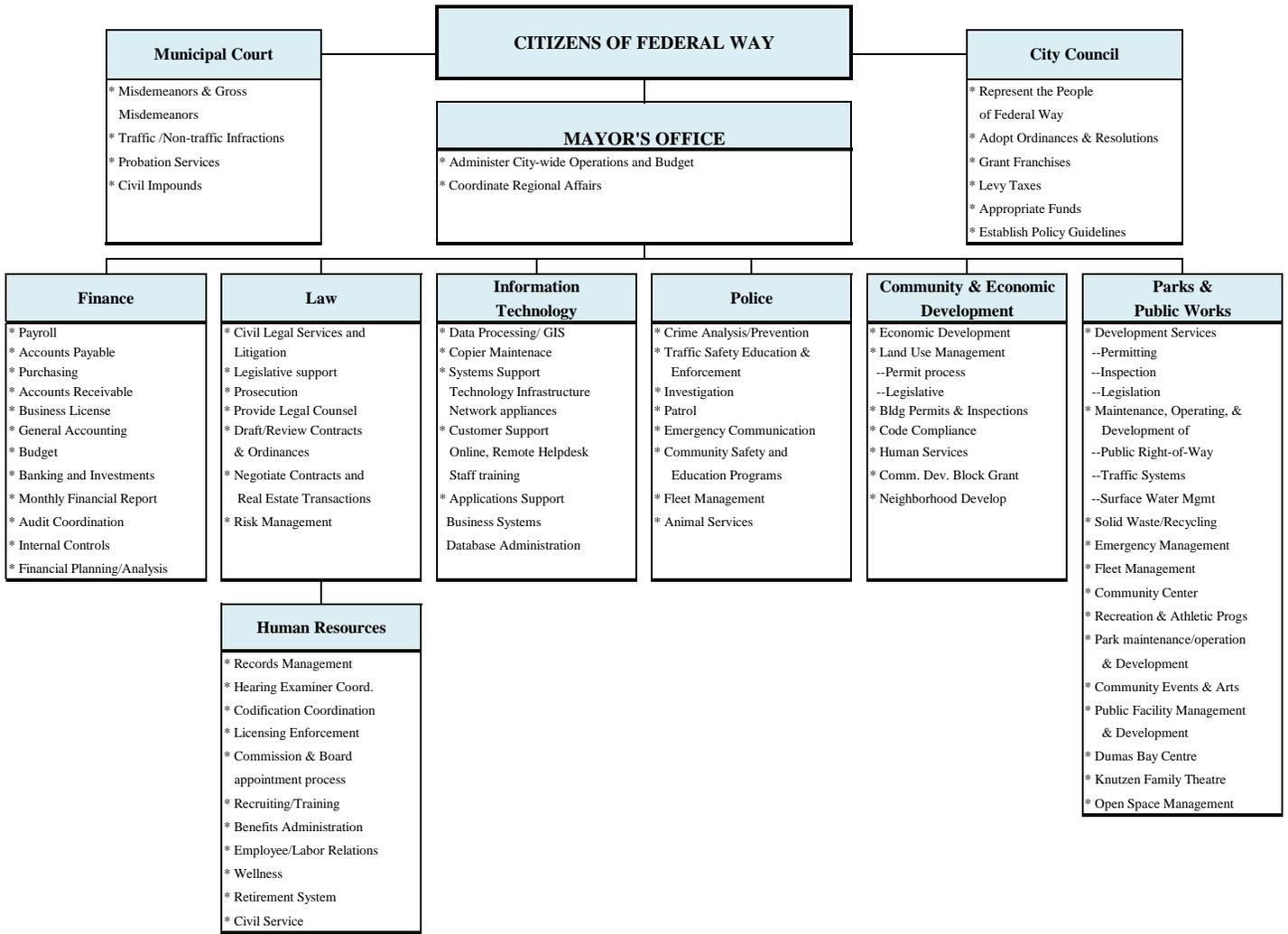


DINI DUCLOS
Councilmember

OTHER ADMINISTRATIVE OFFICERS

Finance Director.....	Tho Kraus
City Attorney.....	Patricia Richardson
City Clerk.....	Carol McNeilly
Community and Economic Development Director	Patrick Doherty
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, 2011

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.



Christopher P. Moville

President

Jeffrey R. Emer

Executive Director



Washington State Auditor Troy Kelley

INDEPENDENT AUDITOR'S REPORT

June 26, 2013

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

REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Federal Way, King County, Washington, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Federal Way, King County, Washington, as of December 31, 2012, 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 accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As described in Note 16, during the year ended December 31, 2012, the City has implemented the Governmental Accounting Standards Board Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position and Statement No. 65, Items Previously Reported as Assets and Liabilities. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 11 through 21 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements as a whole. The accompanying information listed as Combining and Individual Fund Statements and Schedules and Capital Assets Used in the Operation of Governmental Funds on pages 71 through 100 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.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we will also issue our report dated June 26, 2013, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Sincerely,



TROY KELLEY
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, 2012. 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, 2012 by \$594.7 million. Capital Assets (net of depreciation and related debt) account for 88% of this amount with a value of \$520.9 million. Of the remaining net assets of \$73.9 million or 12%, \$51.0 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 \$6.7 million, or 1% compared to 2011. Governmental activities increased by \$5.9 million while business-type activities decreased by \$805 thousand.
- Net investment in capital assets and unrestricted net assets for governmental activities increased by \$523 thousand and unrestricted net assets increased by \$6.4 million respectively compared to 2011.
- Restricted Net Assets decreased by \$1.1 million or 5% is mainly for funding of capital projects.
- Governmental fund balances at year-end were \$48.8 million, \$5.2 million or 12% increase over the prior year. Of this amount, a total of \$14.8 million, or 30% of the governmental fund balance is unrestricted and available to fund ongoing activities. The remaining \$34 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 \$14.8 million, which increased by \$2.4 million or 19% from the prior year.
- The City debt decreased by \$775 thousand during the current fiscal year. General obligation debt decreased by \$579 thousand while public works trust fund loan decreased by \$196 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 Position, 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 position* 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

This section provides analysis of the government-wide financial statements including long-term and short-term information about the City's overall financial condition. The following tables address the financial results of the City as a whole.

CONDENSED STATEMENT OF NET POSITION As of December 31, 2012 and 2011

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Current and other assets	\$ 87,471,044	\$ 83,596,160	\$ 6,432,446	\$ 6,033,543	\$ 93,903,490	\$ 89,629,703
Capital assets and CIP, net of accum. depreciation	482,907,776	482,724,905	51,126,195	51,080,562	534,033,970	533,805,467
Total assets	570,378,820	566,321,065	57,558,641	57,114,105	627,937,460	623,435,170
Long-term liabilities	29,119,984	29,731,230	912,383	1,106,377	30,032,367	30,837,607
Other liabilities	2,466,661	3,623,572	75,403	87,914	2,542,064	3,711,486
Total liabilities	31,586,645	33,354,802	987,786	1,194,291	32,574,431	34,549,093
Deferred inflow of resources	319,999	347,312	295,177	449,310	615,176	796,622
Total deferred inflow of resources	319,999	347,312	295,177	449,310	615,176	796,622
Net position:						
Net investment in:						
capital assets	470,597,776	470,074,905	50,280,880	50,052,887	520,878,656	520,127,792
Restricted	22,847,077	23,941,601	26,496	18,831	22,873,573	23,960,432
Unrestricted	45,027,323	38,602,445	5,968,302	5,398,786	50,995,625	44,001,231
Total net position	\$ 538,472,176	\$ 532,618,951	\$ 56,275,678	\$ 55,470,504	\$ 594,747,853	\$ 588,089,455

Analysis of Net Position

Total net position of the primary government of \$594.7 at December 31, 2012 increased \$6.7 million or 1.1% compared to December 31, 2011. The increase is mainly due to general governmental activities which contributed 88% or \$5.9 million of the increase.

The largest component of the City's net position, 88% or \$520.9 million, is its net investment in capital 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.

Approximately 3% or \$20.7 million of the total net assets of the city are earmarked for construction improvement projects. \$15.3 million of the \$20.7 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 320th St at 20th Ave S, SW 312th St at SR509, S 352nd St Ext from SR99-SR161, S 320th St at I-5 S Ramp, SR99 HOV Lanes PH IV, SR99 HOV Lanes PH V, SW 336th Way to SW 340th St at 26th Pl SW to Hoyt Road, 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 Sacajawea Park and Trail and Pedestrian Access 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: \$61 thousand for police special funds, petty cash/change funds and advance travel, \$51 thousand for municipal court trust fund, \$19 thousand for prepaid insurance/debt, \$2 million for debt service prefunding, \$502 thousand Special Contracts/Studies, \$102 thousand for Hotel/Motel lodging tax, \$167 thousand for Path & Trails Reserve, and \$41 thousand for Community Development Block Grant. The business-type activities portion of \$5.9 million, \$5.8 million can only be spent on surface water management and the remaining \$133 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 \$23.0 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.

Governmental Activities:

Capitals assets and CIP, net of accumulated depreciation increased by \$183K or less than 0.1% due to increase in land contributed to the City of \$1.4M, an increase in construction in progress of \$1.58M primarily due to SR99 HOV Phase 4 and 21st Ave SW at SW 336th Street, decrease in buildings and structures of \$891K primarily due to depreciation expense, decrease in improvements other than buildings of \$2.2M due to depreciation expense, increase in machinery and equipment of \$130K due to purchase and disposition of vehicles and equipment, and increase in infrastructure of \$155K due to capitalizing S 348th Street at 1st Avenue S, developer contribution Campus Crest, and offset by depreciation expense.

Long-term liabilities decreased by \$611 thousand or 2.1% due to decrease in compensated absences, and a lower outstanding balance in GO Bond Loans, SCORE facility debt, and Valley Communications debt.

Other liabilities decreased by \$1.2 million or 29.8% due to decrease in accounts payable and accruals primarily in the General Fund due to timing of invoice payments.

Net investments in capital assets increased \$523 thousand or 0.1% primarily due to an increase in Transportation capital assets and a decrease in long term liabilities such as a compensated absences and outstanding long-term debt.

Restricted net position represents amounts that must be used in accordance with external restrictions, and decreased by \$1.1 million or 4.5% from the prior year primarily due to decrease in debt service prefunding of \$1.9M, increase in capital projects of \$1.0M.

Business-Type Activities:

Current and other assets increased by \$400 thousand or 6.6% primarily due to an increase in grants received in Surface Water Management and an increase in storm drainage fees.

Capitals assets and CIP, net of accumulated depreciation increased by \$46K or less than 0.1% due to increase in land of \$623K for purchase of West Hylebos Basin Land, decrease in construction in progress of \$51K due to capitalization of West Hylebos Creek Headwaters Restoration, decrease in buildings and structures of \$180K due to depreciation expense, decrease in improvements other than buildings of \$324K due to depreciation expense offset by capitalization of West Hylebos Creek Headwaters Restoration, decrease in infrastructure of \$19K due to depreciation expense.

Long-term liabilities decreased by \$194 thousand or 17.5% due to decrease in compensated absences, and low outstanding balance in Public works trust fund loan.

Other liabilities decreased by \$167 thousand or 31.0% primarily due to decrease in deferred inflow of resources of surface water management fees due to timing of receipts.

Net investments in capital assets increased \$228 thousand or 0.5% primarily due to an increase in Surface Water Management capital assets and a decrease in long term liabilities in Public Works Trust Fund Loan balances.

Restricted net position represents amounts that must be used in accordance with external restrictions, and increased by \$8 thousand or 40.7% from the prior year primarily due to increase in Steel Lake and North Lake district balances.

Unrestricted net position increased by \$570 thousand or 10.5% due to an increase in grants received in Surface Water Management, and an increase in storm drainage fees.

CHANGES IN NET POSITION
For the Years Ended December 31, 2012 and 2011

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Revenues:						
Programs revenues:						
Charges for services	\$ 11,560,208	\$ 10,487,684	\$ 4,222,726	\$ 4,020,144	\$ 15,782,934	\$ 14,507,828
Operating grants & contrib.	5,367,163	4,597,981	576,182	265,660	5,943,345	4,863,641
Capital grants & contrib.	5,225,265	9,716,551	-	-	5,225,265	9,716,551
General revenues:						
Property taxes	10,052,109	9,867,614	-	-	10,052,109	9,867,614
Sales tax	10,534,147	10,858,381	-	-	10,534,147	10,858,381
Local criminal justice sales tax	1,864,991	1,795,971	-	-	1,864,991	1,795,971
Utility tax	13,083,179	13,068,510	-	-	13,083,179	13,068,510
Real estate excise tax	1,507,313	1,560,395	-	-	1,507,313	1,560,395
Other taxes	313,607	702,553	-	-	313,607	702,553
Other	838,259	1,061,026	11,424	12,405	849,683	1,073,431
Total Revenue	<u>60,346,241</u>	<u>63,716,666</u>	<u>4,810,332</u>	<u>4,298,209</u>	<u>65,156,573</u>	<u>68,014,875</u>
Expenses:						
General government	4,300,691	4,448,449	-	-	4,300,691	4,448,449
Security of persons & property	27,604,936	27,222,584	-	-	27,604,936	27,222,584
Transportation	9,946,776	13,539,598	-	-	9,946,776	13,539,598
Physical environment	415,935	424,466	-	-	415,935	424,466
Economic environment	2,645,478	2,782,435	-	-	2,645,478	2,782,435
Health and human services	754,727	690,643	-	-	754,727	690,643
Culture and recreation	8,081,401	8,105,578	-	-	8,081,401	8,105,578
Interest on long-term debt	602,572	614,571	-	-	602,572	614,571
Surface Water Management	-	-	3,272,514	3,527,590	3,272,514	3,527,590
Dumas Bay Centre	-	-	873,144	890,738	873,144	890,738
Total Expenses	<u>54,352,517</u>	<u>57,828,324</u>	<u>4,145,658</u>	<u>4,418,328</u>	<u>58,498,175</u>	<u>62,246,652</u>
Change in net position before transfers	5,993,724	5,888,342	664,674	(120,119)	6,658,398	5,768,223
Transfers	(140,500)	(113,000)	140,500	113,000	-	-
Change in net position	5,853,224	5,775,342	805,174	(7,119)	6,658,398	5,768,223
Net position - beginning	532,618,951	527,727,074	55,470,504	55,587,875	588,089,455	583,314,949
Prior period adjustment	-	(883,465)	-	(110,252)	-	(993,717)
Adjusted net position - beginning	532,618,951	526,843,609	55,470,504	55,477,623	588,089,455	582,321,232
Net position - ending	<u>\$ 538,472,176</u>	<u>\$ 532,618,951</u>	<u>\$ 56,275,678</u>	<u>\$ 55,470,504</u>	<u>\$ 594,747,854</u>	<u>\$ 588,089,455</u>

Analysis of the change in net position:

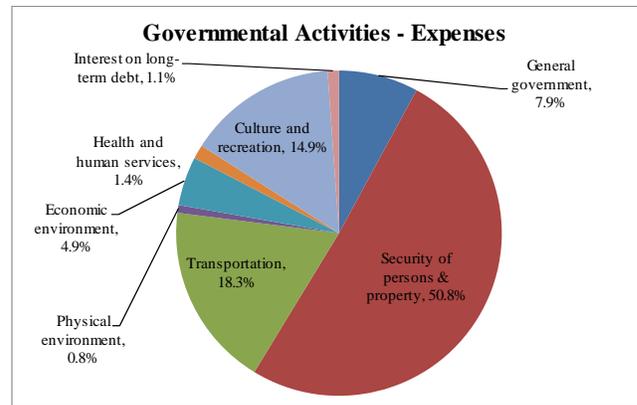
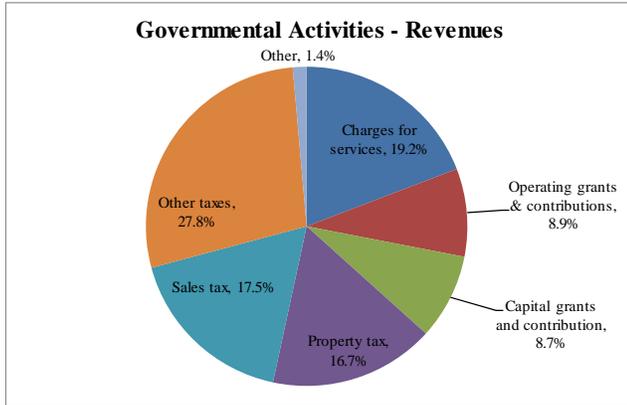
Total government-wide revenues of the primary government increase \$2.9 million or 4.2% and total expenses decreased \$3.7 million or 6.0% from the prior years. These changes are discussed in more detail below.

Governmental Activities:

Governmental activities contributed \$5.9 million or 88% of the total change in net assets of \$6.7 million. The increase is mainly due to the overall increase in capital assets of which \$2.9 million was contributed from developers.

Total revenues for governmental activities decreased \$3.4 million or 5.3%. The decrease is mainly due to less funding received from federal and state assistance which decreased 4.5 million from 2011. In 2011, the City received more funding for capital improvement projects that were in the construction phase.

Total expenses for governmental activities decreased \$3.5 million or 6.0%. The decrease is mainly due to decreases in capital outlay expenditures and prior period impairment loss reported in 2011.

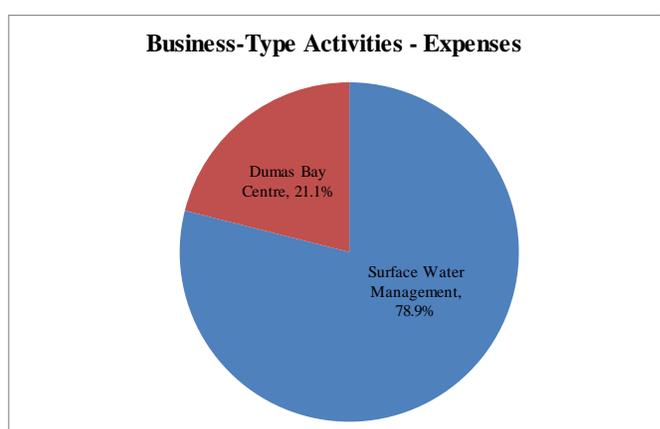
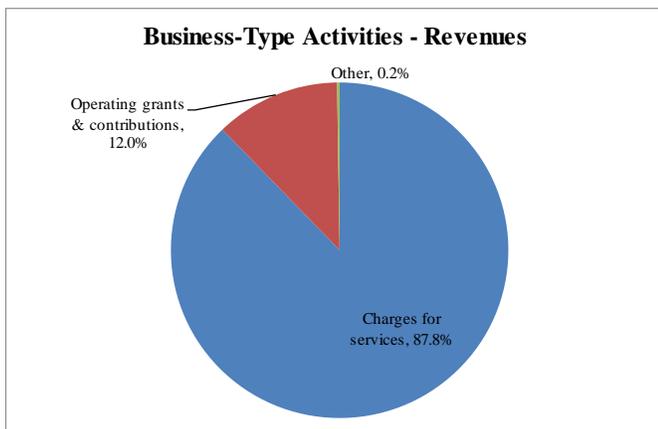


Business-Type Activities:

Business-type activities of the City's Surface Water Management system and Dumas Bay Centre increased the City's net assets by \$805 thousand. Surface Water Management Fund increase by \$950 thousand which was offset by a decreased in Dumas Bay Centre Fund net assets by \$145 thousand. Key elements of the increase are as follows:

Total revenues increased by \$512 thousand or 11.9% from 2011. Attributing factors to the increase in revenues are as follows: Surface Water Management increase is primarily due to \$129 thousand in storm drainage fees; \$47 thousand in mitigation fees; and \$311 thousand in grant revenue change from 2011.

Total expenditures decrease of \$273 thousand or 6.2% from 2011. Attributing factors to the decrease in expenditures are as follows: Surface Water Management decrease is primarily due \$188 thousand in salaries and wages from a vacant position. In 2011 \$95 thousand was capitalized as land and construction work in progress but in 2012 \$726 thousand was capitalized as land and improvements other than buildings.



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 \$48.8 million which increased by \$5.2 million from the prior year. Approximately 30% or \$14.8 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 \$2.3 million or 18%. The increase in fund balance is mainly due to an increase in building permits and franchise fees revenues, and a decrease in expenditures in jail services, health care costs, and frozen Police positions.

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 \$483 thousand or 12% from 2011 due mainly to additional tax revenue received as a result of audit.

The Debt Service Fund has a total fund balance of \$4.2 million which increased by \$316 thousand from 2011 due to an increase in real estate excise tax revenue earmarked for future capital spending.

The Downtown Redevelopment fund was established to accumulate resources and set aside funding for downtown projects. Overall, ending fund balance decreased by \$42 thousand or 2%.

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 increased by \$1.3 million or 10%.

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 \$5.8 million, and those for Dumas Bay Centre amounted to \$133 thousand. The total change in net assets for both funds was \$955 thousand increase and \$145 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 2012, the City made three budget adjustments. The following discussion is reflective only of the current year of the biennium.

The General Fund operating expenditure budget increased by \$3.2 million between the original adopted budget and the adjusted budget for 2012 fiscal year. The following is the major changes for the 2012 budget:

- Reduced \$355 thousand for personnel cost savings due to management changes.
- Reduced \$28 thousand in travel and training budgets.
- Added \$190 thousand for gasoline cost increases.
- Added \$100 thousand for unemployment compensation claims.

- Added \$21 thousand for increase in insurance premiums.
- Reduced \$20 thousand for postage delivery service savings.
- Eliminate \$70 thousand for Federal Lobbyist.
- Eliminate \$133 thousand for Human Services and CDBG grant reorganization.
- Added \$17 thousand for increase 0.25 FTE Human Resources Administrative Assistant.
- Added \$53 thousand for increase in election costs.
- Added \$925 thousand for SCORE jail services.
- Eliminate \$306 thousand for Valley Communications dispatch services.
- Eliminate \$311 thousand for freezing 3.0 FTE vacant Police Officer positions.
- Added \$85 thousand for Recreation Inclusive Coordinator.
- Rolled forward \$450 thousand for pension reserves for future rate increases.
- Added \$65 thousand for workers compensation rate increase.
- Eliminate \$306 thousand for healthcare savings.
- Rolled forward \$82 thousand for Community Weatherization Energy Efficiency grant.
- Reduced \$35 thousand for converting Administrative Services Director to Community Services Manager.
- Eliminated \$41 thousand for eliminating Administrative Services Analyst.
- Eliminated \$18 thousand, net of temp help increase, for eliminating 0.50 FTE Business Licenses Specialist.
- Rolled forward \$97 thousand for abatement funds.
- Rolled forward \$63 thousand for permit system upgrades.
- Rolled forward \$82 thousand for City Center Redevelopment.
- Rolled forward \$49 thousand for Comprehensive Plan update.
- Added \$483 thousand for pending deductibles and claims.
- Rolled forward \$155 thousand for pending deductibles and claims.
- Rolled forward \$110 thousand for legal counsel.
- Added \$38 thousand for legal counsel.
- Rolled forward \$121 thousand for Federal and State seizure expenditures.
- Eliminate \$330 thousand for freezing 3.0 FTE Police Officer positions.
- Rolled forward \$50 thousand for Non-SCORE jail services.
- Rolled forward \$277 thousand for Police grants and contributions.
- Rolled forward \$60 thousand for Arts Cultural Plan.
- Rolled forward \$45 thousand for replacement of monument signs at park entrances.
- Rolled forward \$22 thousand for storm damage repairs and tree/shrub replacement.
- Added \$123 thousand for Police grants and contributions
- Rolled forward \$1.2 million for contingency reserve funds.

Adjustments to revenues and other sources budget include: Adjustments to beginning balance of \$7.6 million; increase of \$544 thousand for grant/contribution revenues; increase in liquor profits of \$553 thousand; decrease in gambling tax of \$46 thousand; decrease in sales tax of \$205 thousand; increase in utility tax of \$925 thousand; increase of \$90 thousand for criminal justice high crime distribution from the state; increase of \$200 thousand for property taxes; increase of \$67 thousand for criminal justice sales tax; increase in franchise fees of \$36 thousand; increase of \$84 thousand in park revenues; increase of \$8 thousand for business licenses; increase of \$2 thousand for leasehold excise tax; decrease of \$119 thousand for animal license; decrease in building and electrical permits of \$150 thousand; decrease of \$41 thousand for interest; and decrease of \$60 thousand for court revenues. Other sources changes include a decrease in transfer in of \$70 thousand for elimination of the federal lobbyist and \$4 thousand for healthcare savings.

The General Fund ending fund balance of \$14.9 million is \$6.4 million over the above the projected \$8.6 million for 2012 year-end. The \$3.5 million of the \$6.4 million excess is being earmarked for carry forward into 2012. The remaining \$2.9 million increase is considered one-time funds.

The \$6.4 million increase in ending fund balance is made up of \$594 thousand in additional revenues/other sources and \$5.8 million in unspent expenses/other uses.

The \$594 thousand increase in revenues/other sources is attributed to increases in interest earnings of \$22 thousand, criminal justice shared revenue of \$102 thousand, liquor profits of \$338 thousand, building permits of \$303 thousand, franchise fees of \$23 thousand, property taxes of \$153 thousand, criminal justice sales tax of \$146 thousand, police services and charges of \$197 thousand, court revenue of \$7 thousand, and plan checking fees and community development fees of \$162 thousand, offset by decreases in: traffic infractions of \$145 thousand, liquor excise tax of \$224 thousand, animal licenses of \$55 thousand, sales tax of \$52 thousand, gambling tax of \$48 thousand, park revenue of \$43 thousand, and transfer in utility tax of \$278 thousand.

The \$5.8 million unspent expenses/other uses are attributable to savings found in: Police & Jail services of \$1.1 million; Community & Economic Development of \$436 thousand; Parks & Recreation of \$348 thousand, Pension Reserves of \$450 thousand; Risk Management Deductible Claims of \$496 thousand; Mayor's Office/Human Services of \$202 thousand; Law of \$310 thousand; Human Resources/City Clerk of \$188 thousand, Municipal Court of \$208 thousand; Finance of \$63 thousand, City Council of \$19 thousand, Contingency Reserves of \$1.1 million, and transfer out for General/Street Fund Subsidy of \$860 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, 2012 amounts to \$534 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		2012	2011
Land	\$	303,565,575	\$	10,933,528	\$	314,499,103
Building and improvements		37,387,676		35,966,374		73,354,051
Machinery and equipment		5,198,053		27,012		5,225,065
Infrastructure		114,012,943		1,796,835		115,809,778
Construction in progress		22,743,528		2,402,446		25,145,974
Total Capital Assets	\$	482,907,776	\$	51,126,195	\$	534,033,970

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 2012, the City of Federal Way had total bonded debt outstanding of \$45.6 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	\$	44,787,976	\$	-	\$	44,787,976
Public works trust fund loan		-		874,817		874,817
Total	\$	44,787,976	\$	874,817	\$	45,662,793

The City's total debt decreased by \$1.6 million due to annual debt service payments.

In February 2013 Moody's Investors Service assigned a Aa3 rating to the City's Limited Tax General Obligation Refunding Bonds, 2013. At the same time, Moody's affirmed the Aa3 rating on the City's approximately \$355,000 limited G.O. Bonds, post refunding. Moody's also affirmed the City's Aa2 unlimited GO-equivalent issuer rating.

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 2012 was \$7.143 billion and the total amount of debt the City may issue is \$510.1 million. Remaining legal debt capacities as of December 31, 2012 are:

General government (no vote required)	\$ 81,530,018
General government (3/5 majority vote required)	\$ 71,428,320
Parks and open space (3/5 majority vote required)	\$178,570,799
Utilities (3/5 majority vote required)	<u>\$178,570,799</u>
Total Capacity	\$510,099,936

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 United States economy has continued to grow slightly in 2012, but for many Americans life has remained the same. With unemployment rates remaining high at 7.8% in December 2012; a decrease from 8.5% in 2011; many Americans have remained jobless. Home values and housing starts were an upturn for the 2012 economy, but state budgets have continued to decline signifying more layoffs, services cuts and potential tax increases.

In 2012 we saw oil and gasoline prices decrease slightly due to weakness in demand around the world from economic conditions, the Middle East tensions and a great deal of noise in the currency markets in Europe and the United States is having effect of raising the price of crude. Retail and commodity item purchases increased slightly in 2012, but as oil prices increase, consumers will be forced to shift discretionary spending away from big-ticket purchases of autos, furniture, appliances, and purchase of nondurables.

Other factors in 2012 that affected the United States economy negatively are the budget negotiations "the fiscal cliff" and health care costs affected by the Affordable Care Act. According to economists and business owners in 2012 this has frozen many decisions about hiring and expanding within companies until final decisions are made.

Like the rest of the nation, the Washington state economy is still dealing with a severely damaged economy. How quickly the region emerges from this 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 0.2% over the year compared to 0% for the nation. That's largely thanks to Boeing, which has advanced at twice the national rate.

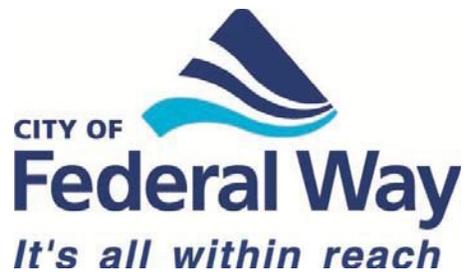
Despite the lift from Boeing, the regional economy remains in fragile state. Foreclosures are still holding down the housing market, while weak tax collections are forcing state and local governments to cut programs and eliminate jobs.

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. 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 approached 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 at the federal, state and local level to anticipate any negative impact on critical City resources.

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 8th Avenue South, Federal Way, Washington 98003, telephone 253-835-2520, or visit the City's website at www.cityoffederalway.com.



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BASIC FINANCIAL STATEMENTS

STATEMENT OF NET POSITION

December 31, 2012

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash & cash equivalents and investments	\$ 64,784,796	\$ 5,865,106	\$ 70,649,902
Receivables (net)	1,883,155	139,862	2,023,017
Due from other governments	1,888,756	427,477	2,316,233
Prepaid items	23,771	-	23,771
Restricted assets:			
Seizure funds/petty cash/advance travel/retainage	111,212	-	111,212
Investment in joint venture	18,779,354	-	18,779,354
Capital assets not being depreciated:			
Land	303,565,575	10,933,528	314,499,103
Construction in progress	22,743,528	2,402,446	25,145,974
Capital assets net of accumulated depreciation:			
Buildings/structures	10,645,151	800,840	11,445,991
Improvements other than buildings	26,742,525	35,165,534	61,908,059
Machinery and equipment	5,198,053	27,012	5,225,065
Infrastructure	114,012,943	1,796,835	115,809,778
Total Assets	<u>570,378,820</u>	<u>57,558,641</u>	<u>627,937,460</u>
LIABILITIES			
Accounts payable and accruals	1,453,202	51,201	1,504,403
Due to other governments	-	18,265	18,265
Customer deposits	1,013,459	5,937	1,019,396
Noncurrent Liabilities:			
Due within one year	989,570	185,633	1,175,203
Due in more than one year	13,038,464	726,750	13,765,214
Due to other governments	15,091,950	-	15,091,950
Total Liabilities	<u>31,586,645</u>	<u>987,786</u>	<u>32,574,431</u>
DEFERRED INFLOW OF RESOURCES	<u>319,999</u>	<u>295,177</u>	<u>615,176</u>
NET POSITION			
Net investment in capital assets	470,597,776	50,280,880	520,878,656
Restricted for:			
Customer deposit	12,206	5,937	18,143
Debt service prefunding	2,004,488	-	2,004,488
Capital projects	20,719,171	-	20,719,171
Steel Lake & North Lake Mgmt District	-	20,559	20,559
Other	111,212	-	111,212
Unrestricted	<u>45,027,323</u>	<u>5,968,302</u>	<u>50,995,625</u>
Total Net Position	<u>\$ 538,472,176</u>	<u>\$ 56,275,678</u>	<u>\$ 594,747,853</u>

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

STATEMENT OF ACTIVITIES
For the Year ended December 31, 2012

Functions/Programs	Program Revenues				Net (Expense) Revenue & Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
<i>Governmental Activities:</i>							
General government	\$ 4,300,691	\$ 924,966	\$ 2,459,749	\$ -	\$ (915,976)	\$ -	\$ (915,976)
Security of persons & property	27,604,936	5,937,100	888,641	-	(20,779,196)	-	(20,779,196)
Transportation	9,946,776	2,139,292	1,827,558	5,225,265	(754,661)	-	(754,661)
Physical environment	415,935	89,457	139,966	-	(186,512)	-	(186,512)
Economic environment	2,645,478	568,973	-	-	(2,076,505)	-	(2,076,505)
Health	754,727	162,322	3,392	-	(589,013)	-	(589,013)
Culture & recreation	8,081,401	1,738,098	47,857	-	(6,295,446)	-	(6,295,446)
Interest on long-term debt	602,572	-	-	-	(602,572)	-	(602,572)
Total governmental activities	54,352,517	11,560,208	5,367,163	5,225,265	(32,199,881)	-	(32,199,881)
<i>Business-type Activities:</i>							
Surface Water Management	3,272,514	3,635,574	576,182	-	-	939,242	939,242
Dumas Bay Centre	873,144	587,152	-	-	-	(285,992)	(285,992)
Total business-type activities	4,145,658	4,222,726	576,182	-	-	653,250	653,250
Total	\$ 58,498,175	\$ 15,782,934	\$ 5,943,345	\$ 5,225,265	(32,199,881)	653,250	(31,546,631)
General revenues:							
Property tax					10,052,109	-	10,052,109
Sales tax					10,534,147	-	10,534,147
Local criminal justice sales tax					1,864,991	-	1,864,991
Utility tax					13,083,179	-	13,083,179
Real estate excise tax					1,507,313	-	1,507,313
Gambling tax					114,443	-	114,443
Hotel/motel tax					193,344	-	193,344
Leasehold excise tax					5,820	-	5,820
Other revenue					702,833	-	702,833
Investment earnings					135,426	11,424	146,850
Transfers					(140,500)	140,500	-
Total general revenues and transfers					38,053,106	151,924	38,205,030
Change in net assets					5,853,224	805,174	6,658,398
Net position at beginning of year					532,618,951	55,470,504	588,089,455
Adjusted beginning net assets					532,618,951	55,470,504	588,089,455
Net position at end of year					\$ 538,472,176	\$ 56,275,678	\$ 594,747,853

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

**BALANCE SHEET
GOVERNMENTAL FUNDS**

December 31, 2012

	General	Street	Utility Tax	Debt Service
ASSETS				
Equity in pooled cash & investments	\$ 14,277,516	\$ 970,100	\$ 3,473,409	\$ 3,977,303
Prepaid insurance/debt service	18,771	-	-	-
Receivables (net):				
Taxes	361,257	-	1,177,253	301,156
Accounts and contracts	4,676	-	-	-
Restricted cash	111,212	-	-	-
Due from other governments	1,249,004	96,544	3,025	935
Interfund loans receivable	10,000	-	-	-
TOTAL ASSETS	16,032,436	1,066,644	4,653,687	4,279,394
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
Liabilities:				
Vouchers payable	429,652	185,083	-	-
Accounts/payroll payable	6,935	456	-	-
Deposits payable	285,156	716,097	-	-
Interfund loans payable	-	-	-	-
TOTAL LIABILITIES	721,743	901,636	-	-
DEFERRED INFLOWS OF RESOURCES	375,598	65,009	-	97,050
Fund Balance:				
Nonspendable	69,398	-	-	-
Restricted	60,585	-	-	2,004,488
Committed	21,893	100,000	4,653,687	2,177,857
Unassigned	14,783,219	-	-	-
TOTAL FUND BALANCES	14,935,095	100,000	4,653,687	4,182,345
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 16,032,436	\$ 1,066,645	\$ 4,653,687	\$ 4,279,395

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

**BALANCE SHEET
GOVERNMENTAL FUNDS**

December 31, 2012

	Downtown Redevelopment	Transportation	Nonmajor Governmental	Total
ASSETS				
Equity in pooled cash & investments	\$ 2,176,561	\$ 15,205,345	\$ 7,705,151	\$ 47,785,386
Prepaid insurance/debt service	-	-	-	18,771
Receivables (net):				
Taxes	(7,880)	-	-	1,831,786
Accounts and contracts	-	-	46,693	51,369
Restricted Cash	-	-	-	111,212
Due from other governments	-	177,673	361,575	1,888,756
Interfund loans receivable	-	-	-	10,000
	<u>2,168,681</u>	<u>15,383,018</u>	<u>8,113,419</u>	<u>51,697,280</u>
TOTAL ASSETS				
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
Liabilities:				
Vouchers payable	12,000	226,546	358,293	1,211,574
Accounts/payroll payable	-	-	-	7,391
Deposits payable	-	-	12,206	1,013,459
Interfund loans payable	-	-	10,000	10,000
	<u>12,000</u>	<u>226,546</u>	<u>380,499</u>	<u>2,242,424</u>
TOTAL LIABILITIES				
DEFERRED INFLOWS OF RESOURCES	<u>(7,902)</u>	<u>-</u>	<u>97,734</u>	<u>627,489</u>
Fund Balance:				
Nonspendable	-	-	-	69,398
Restricted	2,025,153	10,807,760	3,241,767	18,139,753
Committed	139,429	4,348,712	4,393,420	15,834,998
Unassigned	-	-	-	14,783,220
	<u>2,164,582</u>	<u>15,156,472</u>	<u>7,635,187</u>	<u>48,827,368</u>
TOTAL FUND BALANCES				
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u>\$ 2,168,680</u>	<u>\$ 15,383,018</u>	<u>\$ 8,113,420</u>	
Amounts reported for governmental activities in the statement of net position are different because:				
Capital assets are used in governmental activities are not financial resources and, therefore, are not reported in the funds.				467,293,556
Investment in joint venture is not a financial resource and, therefore, not reported in the funds				18,779,354
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred inflow of resources in the funds				351,662
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 position				32,340,220
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.				(29,119,984)
Net position of governmental activities				<u>\$ 538,472,176</u>

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, 2012**

	General	Street	Utility Tax	Debt Service
REVENUES				
Taxes	\$ 22,497,545	\$ -	\$ 13,083,178	\$ 1,507,315
Licenses and permits	2,402,123	99,245	-	-
Intergovernmental	2,223,210	1,329,384	-	-
Service charges and fees	3,049,783	215,585	-	-
Fines and forfeitures	1,111,542	-	-	-
Interest	94,311	606	3,405	3,287
Other	429,533	34,569	-	-
TOTAL REVENUES	31,808,047	1,679,389	13,086,583	1,510,602
EXPENDITURES				
Current:				
General government	3,413,961	-	49,000	-
Security of persons and property	26,552,884	-	-	-
Transportation	-	4,088,227	-	-
Physical environment	-	-	-	-
Economic environment	2,288,187	-	-	-
Health	754,311	-	-	-
Culture and recreation	3,632,440	-	-	-
Debt service:				
Principal	-	-	-	480,760
Interest/fiscal charges/admin fees	-	-	-	602,572
Capital outlay	190,464	2,190	-	-
TOTAL EXPENDITURES	36,832,247	4,090,417	49,000	1,083,332
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(5,024,200)	(2,411,028)	13,037,583	427,270
OTHER FINANCING SOURCES (USES)				
Transfers in	9,088,018	2,419,371	-	913,892
Transfers out	(1,772,871)	(8,343)	(12,554,760)	(1,025,000)
TOTAL OTHER FINANCING SOURCES (USES)	7,315,147	2,411,028	(12,554,760)	(111,108)
NET CHANGE IN FUND BALANCES	2,290,947	-	482,823	316,162
FUND BALANCES - BEGINNING	12,644,148	100,000	4,170,864	3,866,183
FUND BALANCES - ENDING	\$ 14,935,095	\$ 100,000	\$ 4,653,687	\$ 4,182,345

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, 2012

	Downtown Redevelopment	Transportation	Nonmajor Governmental	Total
REVENUES				
Taxes	\$ 8,066	\$ -	\$ 353,955	\$ 37,450,059
Licenses and permits	-	-	-	2,501,368
Intergovernmental	-	2,539,012	1,539,408	7,631,014
Service charges and fees	-	504,422	1,917,172	5,686,962
Fines and forfeitures	-	-	2,260,336	3,371,878
Interest	2,003	12,493	6,378	122,483
Other	-	-	238,728	702,830
	<u>10,069</u>	<u>3,055,927</u>	<u>6,315,977</u>	<u>57,466,594</u>
TOTAL REVENUES				
EXPENDITURES				
Current:				
General government	-	-	939,168	4,402,129
Security of persons and property	-	-	9,386	26,562,270
Transportation	-	13,812	1,937,144	6,039,183
Physical environment	-	-	409,042	409,042
Economic environment	52,539	-	304,489	2,645,215
Health	-	-	-	754,311
Culture and recreation	-	-	2,244,930	5,877,370
Debt service:				
Principal	-	-	-	480,760
Interest/fiscal charges/admin fees	-	-	-	602,572
Capital outlay	-	3,316,321	828,783	4,337,758
	<u>52,539</u>	<u>3,330,133</u>	<u>6,672,942</u>	<u>52,110,610</u>
TOTAL EXPENDITURES				
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES				
	<u>(42,470)</u>	<u>(274,206)</u>	<u>(356,965)</u>	<u>5,355,984</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	1,621,000	2,186,000	16,228,281
Transfers out	-	-	(1,007,807)	(16,368,781)
TOTAL OTHER FINANCING SOURCES (USES)				
	<u>-</u>	<u>1,621,000</u>	<u>1,178,193</u>	<u>(140,500)</u>
NET CHANGE IN FUND BALANCES				
	(42,470)	1,346,794	821,228	5,215,484
FUND BALANCES - BEGINNING				
	<u>2,207,052</u>	<u>13,809,678</u>	<u>6,813,959</u>	<u>43,611,884</u>
FUND BALANCES - ENDING				
	<u>\$ 2,164,582</u>	<u>\$ 15,156,472</u>	<u>\$ 7,635,187</u>	<u>\$ 48,827,368</u>

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, 2012

Amounts reported for governmental activities in the statement of activities (page 19) are different because:	<u>2012</u>
Net change in fund balances--total governmental funds	\$ 5,215,485
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.	(54,239)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(94,711)
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 position. 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 position.	541,000
Internal service funds are used by management to charge costs of risk management, information systems, mail & duplication, fleet, and building systems to the funds.	177,632
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.	<u>68,057</u>
Change in net position of governmental activities	<u><u>\$ 5,853,224</u></u>

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

For Year Ended December 31, 2012

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final		Final Budget - Positive (Negative)
REVENUES				
Taxes	\$ 22,286,000	\$ 22,304,000	\$ 22,497,545	\$ 193,545
Licenses and permits	2,345,000	2,120,000	2,402,123	282,123
Intergovernmental	950,432	2,044,519	2,223,210	178,691
Service charges and fees	2,646,723	2,727,336	3,049,783	322,447
Fines and forfeitures	1,257,150	1,256,468	1,111,542	(144,926)
Interest	113,000	72,000	94,311	22,311
Other	386,150	410,915	429,533	18,618
TOTAL REVENUES	29,984,455	30,935,238	31,808,047	872,809
EXPENDITURES				
Current:				
General government	3,886,120	6,068,320	3,413,961	2,654,359
Security of persons and property	27,508,759	27,966,232	26,552,884	1,413,348
Economic environment	2,659,603	2,723,741	2,288,187	435,554
Health	722,039	858,735	754,311	104,424
Culture and recreation	3,752,150	3,980,114	3,632,440	347,674
Capital outlay	-	164,803	190,464	(25,661)
TOTAL EXPENDITURES	38,528,671	41,761,945	36,832,247	4,929,698
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(8,544,216)	(10,826,707)	(5,024,200)	5,802,507
OTHER FINANCING SOURCES (USES)				
Transfers in	8,483,357	9,366,359	9,088,018	(278,341)
Transfers out	(2,219,541)	(2,633,233)	(1,772,871)	860,362
TOTAL OTHER FINANCING SOURCES (USES)	6,263,816	6,733,126	7,315,147	582,021
NET CHANGE IN FUND BALANCES	(2,280,400)	(4,093,581)	2,290,947	6,384,528
FUND BALANCES - BEGINNING	5,081,826	12,644,148	12,644,148	0
FUND BALANCES - ENDING	\$ 2,801,426	\$ 8,550,567	\$ 14,935,095	\$ 6,384,528

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, 2012

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>		<u>(Negative)</u>
REVENUES				
Licenses and permits	\$ 115,271	\$ 115,272	\$ 99,245	\$ (16,027)
Intergovernmental	1,073,000	1,438,260	1,329,384	(108,876)
Service charges and fees	221,222	201,624	215,585	13,961
Interest	2,000	2,000	606	(1,394)
Other	47,526	27,122	34,569	7,447
TOTAL REVENUES	1,459,019	1,784,278	1,679,389	(104,889)
EXPENDITURES				
Current:				
Transportation	4,342,927	5,047,449	4,088,227	959,222
Capital outlay	-	-	2,190	(2,190)
TOTAL EXPENDITURES	4,342,927	5,047,449	4,090,417	957,032
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(2,883,908)	(3,263,171)	(2,411,028)	852,143
OTHER FINANCING SOURCES (USES)				
Transfers in	2,883,908	3,272,536	2,419,371	(853,165)
Transfers out	-	(9,365)	(8,343)	1,022
TOTAL OTHER FINANCING SOURCES (USES)	2,883,908	3,263,171	2,411,028	(852,143)
NET CHANGE IN FUND BALANCES	-	-	-	-
FUND BALANCES - BEGINNING	100,000	100,000	100,000	-
FUND BALANCES - ENDING	\$ 100,000	\$ 100,000	\$ 100,000	-

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, 2012

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>		
REVENUES				
Taxes	\$ 12,546,000	\$ 12,420,000	\$ 13,083,178	\$ 663,178
Interest	30,000	6,000	3,405	(2,595)
TOTAL REVENUES	<u>12,576,000</u>	<u>12,426,000</u>	<u>13,086,583</u>	<u>660,583</u>
EXPENDITURES				
Current:				
General government	49,000	49,000	49,000	-
TOTAL EXPENDITURES	<u>49,000</u>	<u>49,000</u>	<u>49,000</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>12,527,000</u>	<u>12,377,000</u>	<u>13,037,583</u>	<u>660,583</u>
OTHER FINANCING SOURCES (USES)				
Transfers out	(12,837,357)	(12,833,187)	(12,554,760)	278,427
TOTAL OTHER FINANCING SOURCES (USES)	<u>(12,837,357)</u>	<u>(12,833,187)</u>	<u>(12,554,760)</u>	<u>278,427</u>
NET CHANGE IN FUND BALANCES	(310,357)	(456,187)	482,823	939,010
FUND BALANCES - BEGINNING	<u>2,920,156</u>	<u>4,170,864</u>	<u>4,170,864</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 2,609,799</u>	<u>\$ 3,714,677</u>	<u>\$ 4,653,687</u>	<u>\$ 939,010</u>

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

**STATEMENT OF NET POSITION
PROPRIETARY FUNDS**

December 31, 2012

	Business-type Activities - Enterprise Funds			Governmental Activities
	Surface Water Management	Dumas Bay Centre	TOTAL	Internal Service
ASSETS				
Current Assets				
Equity in pooled cash & investments	\$ 5,471,809	\$ 334,331	\$ 5,806,139	\$ 17,058,370
Prepaid items	-	-	-	5,000
Receivables (net):				
Accounts and contracts	122,995	16,867	139,862	-
Due from other governments	427,477	-	427,477	-
TOTAL CURRENT ASSETS	6,022,281	351,198	6,373,478	17,063,370
Property, plant and equipment				
Land	8,823,888	2,109,640	10,933,528	-
Building/structures	19,849	3,581,015	3,600,864	16,515,708
Machinery/furniture/equipment	47,972,459	118,374	48,090,833	15,805,700
Infrastructure	1,916,645	-	1,916,645	-
Construction in progress	2,023,638	378,808	2,402,446	-
Less accumulated depreciation	(12,936,942)	(2,881,177)	(15,818,119)	(16,707,188)
TOTAL NONCURRENT ASSETS	47,819,537	3,306,660	51,126,197	15,614,220
TOTAL ASSETS	53,841,818	3,657,858	57,499,675	32,677,590
LIABILITIES AND FUND EQUITY				
Current Liabilities:				
Vouchers/payroll payable	56,175	13,291	69,466	234,237
Retainage payable - with escrow agent	-	-	-	-
Due to other governments	-	-	-	-
Deposits payable	-	5,937	5,937	-
Deferred revenue	-	-	-	-
Public Works trust fund loan payable	182,359	-	182,359	-
Compensated absences payable	3,274	-	3,274	-
TOTAL CURRENT LIABILITIES	241,808	19,228	261,036	234,237
Long-term liabilities:				
Public Works trust fund loan payable	662,958	-	662,958	-
Compensated absences payable	51,065	12,727	63,792	44,173
TOTAL LONG-TERM LIABILITIES	714,023	12,727	726,750	44,173
TOTAL LIABILITIES	955,831	31,955	987,786	278,410
DEFERRED INFLOW OF RESOURCES	114,631	180,546	295,177	-
Net investment in capital	46,974,220	3,306,660	50,280,880	15,614,220
Restricted for:				
Customer deposits	-	5,937	5,937	-
Steel Lake & North Lake Mgmt District	20,559	-	20,559	-
Unrestricted	5,776,577	132,760	5,909,337	16,784,960
TOTAL NET POSITION	\$ 52,771,356	\$ 3,445,357	56,216,713	\$ 32,399,180
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds			58,960	
NET POSITION OF BUSINESS-TYPE ACTIVITIES			\$ 56,275,678	

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

**STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS**

For Year Ended December 31, 2012

	Business-type Activities - Enterprise Funds			Governmental Activities
	Surface Water Management	Dumas Bay Centre	TOTAL	Internal Service
OPERATING REVENUES:				
Service charges and fees	\$ 3,617,369	\$ 587,152	\$ 4,204,521	\$ 5,559,201
Intergovernmental	576,182	-	576,182	69,898
Miscellaneous	18,205	-	18,205	217,610
TOTAL OPERATING REVENUES	4,211,756	587,152	4,798,908	5,846,709
OPERATING EXPENSES:				
Personal services	1,535,929	301,315	1,837,243	761,271
Materials and supplies	139,877	131,613	271,490	607,838
Services and charges	640,508	220,286	860,794	2,230,725
Intergovernmental	147,030	1,928	148,958	175,417
Depreciation	498,346	181,997	680,343	2,175,432
Interfund charges	294,777	35,497	330,274	-
TOTAL OPERATING EXPENSES	3,256,467	872,636	4,129,102	5,950,683
OPERATING INCOME (LOSS)	955,289	(285,484)	669,806	(103,974)
NON-OPERATING REVENUES (EXPENSES):				
Gain (Loss) from disposal of capital assets	-	-	-	47,462
Interest income	10,238	354	10,592	13,775
Interest expense	(10,277)	-	(10,277)	-
TOTAL NON-OPERATING REVENUES (EXPENSES)	(39)	354	315	61,237
INCOME (LOSS) BEFORE TRANSFERS	955,250	(285,130)	670,121	(42,737)
Capital contributions	-	-	-	214,922
Transfers in	409,181	140,500	549,681	56,790
Transfers out	(409,181)	-	(409,181)	(56,790)
CHANGE IN NET POSITION	955,250	(144,630)	810,621	172,185
NET POSITION - BEGINNING	51,816,106	3,589,988	32,226,994	32,226,994
NET POSITION - ENDING	\$ 52,771,356	\$ 3,445,357	\$ 32,399,180	\$ 32,399,180
Adjustment to reflect the consolidation of internal service fund activities related to enterprise			(5,447)	
CHANGES IN NET POSITION OF BUSINESS-TYPE ACTIVITIES			\$ 805,174	

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

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS

For Year Ended December 31, 2012

	Business-type Activities - Enterprise Funds			Governmental
	Surface Water Management	Dumas Bay Centre	TOTAL	Internal Service
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash received from users	\$ 3,659,246	\$ 639,366	\$ 4,298,612	\$ 5,724,306
Cash payments to claimants	-	-	-	(452,921)
Cash payments to suppliers for goods/services	(772,710)	(355,094)	(1,127,804)	(2,042,459)
Cash payments to employees	(1,541,938)	(306,941)	(1,848,879)	(763,460)
Cash payments to other funds for goods and services	(294,777)	(35,497)	(330,274)	-
Cash payments to other governments for goods and services	(164,020)	(1,928)	(165,948)	(662,573)
Other operating receipts	267,926	-	267,926	212,036
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>1,153,728</u>	<u>(60,094)</u>	<u>1,093,633</u>	<u>2,014,929</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfers in	409,181	140,500	549,681	56,790
Transfers out	(409,181)	-	(409,181)	(56,790)
NET CASH PROVIDED BY NONCAPITAL FINANCING	<u>-</u>	<u>140,500</u>	<u>140,500</u>	<u>-</u>
CASH FLOWS FROM CAPITAL AND CAPITAL - RELATED FINANCING ACTIVITIES:				
Principal paid on debt service	(182,359)	-	(182,359)	-
Interest paid on debt service	(10,277)	-	(10,277)	-
Acquisition of capital asset/construction work in progress	(725,980)	-	(725,980)	(1,212,045)
Proceeds from the sale of capital assets	-	-	-	52,758
NET CASH USED FOR CAPITAL AND CAPITAL- RELATED FINANCING ACTIVITIES	<u>(918,616)</u>	<u>-</u>	<u>(918,616)</u>	<u>(1,159,287)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:				
Receipts of interest	10,238	354	10,592	13,775
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>10,238</u>	<u>354</u>	<u>10,592</u>	<u>13,775</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	245,350	80,760	326,109	869,417
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>5,226,459</u>	<u>253,571</u>	<u>5,480,030</u>	<u>16,188,952</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>5,471,812</u></u>	<u><u>334,329</u></u>	<u><u>5,806,140</u></u>	<u><u>17,058,367</u></u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES				
Operating Income/(loss)	955,288	(285,484)	669,804	(103,974)
Adjustments to reconcile operating income to net cash provided/(used) by operating activities:				
Depreciation expenses	498,346	181,997	680,343	2,175,432
(Increases)/decrease in accounts receivable	244,257	3,967	248,224	40,571
(Increases)/decrease in due from other governments	(326,459)	-	(326,459)	49,060
Increases/(decrease) in vouchers/accounts payable	13,334	(3,795)	9,539	(143,971)
Increases/(decrease) in retainage payable	(5,660)	-	(5,660)	-
Increases/(decrease) in due to other government	(16,990)	-	(16,990)	-
Increases/(decrease) in deposits payable	-	600	600	-
Increases/(decrease) in deferred revenue	(202,380)	48,247	(154,133)	-
Increases/(decrease) in accrued payroll/compensated absences payable	(6,009)	(5,626)	(11,635)	(2,189)
TOTAL ADJUSTMENTS	<u>198,439</u>	<u>225,390</u>	<u>423,829</u>	<u>2,118,903</u>
NET CASH PROVIDED/USED BY OPERATING ACTIVITIES	<u>\$ 1,153,728</u>	<u>\$ (60,094)</u>	<u>\$ 1,093,633</u>	<u>\$ 2,014,929</u>
Non-cash investing, capital, and financing activities:				
Other contributions of capital assets				<u>\$ 214,922</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS**December 31, 2012****INDEX**

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NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended December 31, 2012

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 dependent 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 position 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 functions or segments. 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, 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 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 the 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 to provide for debt service, capital projects, maintenance and operations expenditures, etc. 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 inter-fund 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 is included in the Comprehensive Annual Financial Report 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 an 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 owned by this Fund. Both maintenance/operating costs and depreciation recovery will be charged to 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 received 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; inter-fund, 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 2012 should be read in conjunction with the government's financial statements for the year ended December 31, 2011.

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 re-appropriation 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	Debt Service Fund
	- <i>Street Fund</i>	
	- <i>Arterial Street</i>	
	- <i>Utility Tax</i>	
	- <i>Solid Waste & Recycling</i>	
	- <i>Federal Way Community Center</i>	
	- <i>Traffic Safety</i>	
	- <i>Hotel/Motel Lodging Tax</i>	
	- <i>Paths & Trails</i>	

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.
- By the first Tuesday in October, 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. Copies of the preliminary budget are provided to the City Council and made available to staff and the public.
- 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.
- No later than 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 or that affect the number of authorized positions 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.

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 2012 for the City were \$4,736,238.

ASSETS, LIABILITIES, FUND BALANCE, NET POSITION**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, 2012, the State Treasurer was holding \$66,472,650 in the Local Government Investment Pool. The Local Government 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, 2012, the total cash and cash equivalents were \$70,761,104.

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 same 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

Activities 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 inter-fund 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.

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 at an 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 position. Long-term debt outstanding at year-end is outlined in Note 11.

Deferred Outflows/Inflows of Resources

The deferred inflow of resources 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 inflow of resources.

Fund Balance Classification

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 intact.

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.

2012 FUND BALANCE CLASSIFICATION								
Fund Balance	General Fund	Street	Utility Tax	Debt Service	Downtown Redevelop.	Transportation	Nonmajor Gov't	Total
<i>Nonspendable:</i>								
Court trust	\$ 50,627	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	50,627
Prepaid insurance/debt service	18,771	-	-	-	-	-	-	18,771
<i>Restricted for:</i>								
Police covert/seizure	60,585	-	-	-	-	-	-	60,585
Future debt payments	-	-	-	2,004,488	-	-	-	2,004,488
Special Contracts/Studies	-	-	-	-	-	-	502,375	502,375
Hotel/Motel Lodging Tax	-	-	-	-	-	-	102,416	102,416
Path & Trails Reserves	-	-	-	-	-	-	166,668	166,668
Comm. Development Block Grant	-	-	-	-	-	-	40,715	40,715
Downtown Redevelopment	-	-	-	-	2,025,153	-	-	2,025,153
City Facilities CIP	-	-	-	-	-	-	657,781	657,781
Parks CIP	-	-	-	-	-	-	1,771,812	1,771,812
Transportation CIP	-	-	-	-	-	10,807,760	-	10,807,760
<i>Committed to:</i>								
Capital, debt, and operations	-	-	3,577,357	2,177,857	-	-	-	5,755,214
Petty cash/advance travel	21,600	-	-	-	-	-	-	21,600
Proposition 1	-	-	1,076,330	-	-	-	-	1,076,330
Transportation CIP	-	-	-	-	-	4,348,712	-	4,348,712
Downtown Redevelopment	-	-	-	-	139,429	-	-	139,429
City Facilities CIP	-	-	-	-	-	-	480,071	480,071
Arterial Street	-	-	-	-	-	-	79,530	79,530
Solid Waste/Recycling	-	-	-	-	-	-	172,002	172,002
2% for the Arts	293	-	-	-	-	-	-	293
Federal Way Community Center	-	-	-	-	-	-	1,197,498	1,197,498
Traffic Safety	-	-	-	-	-	-	1,975,866	1,975,866
Snow/ice removal	-	100,000	-	-	-	-	-	100,000
Parks CIP	-	-	-	-	-	-	488,453	488,453
<i>Unassigned:</i>								
General Fund	14,783,219	-	-	-	-	-	-	14,783,219
Total Fund Balance:	\$ 14,935,095	\$ 100,000	\$ 4,653,687	\$ 4,182,345	\$ 2,164,582	\$ 15,156,472	\$ 7,635,187	\$ 48,827,368

Interfund Transactions

There are four types of transactions between funds – inter-fund loans, inter-fund services provided and used, inter-fund reimbursements, and inter-fund 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, and 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 Position

The governmental funds' balance sheet includes reconciliation between *fund balance – total governmental funds and net position – governmental activities* as reported in the government-wide statement of net position. One element of the 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 \$29,119,984 difference are as follows:

Bonds Payable at beginning of year	\$ 28,157,950
Plus: Inclusion of compensated absences	1,503,034
Less: Current year reduction of principal portion of debt	<u>(541,000)</u>
Net Adjustment to reduce fund balance-total governmental funds to arrive at net position - governmental activities	<u>\$ 29,119,984</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 position 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 (\$54,238) difference are as follows:

Capital outlay	\$ 7,024,012
Less: Governmental depreciation expense	(6,087,383)
Plus: Decrease investment in joint venture	<u>(990,867)</u>
Net adjustment to increase net changes in fund balances - Total governmental funds to arrive at changes in net position of governmental activities	<u>\$ (54,238)</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 inflows in the fund statements	<u>\$ (94,711)</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	<u>\$ 68,057</u>
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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 2012 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	2012		
	ORIGINAL BUDGET	SUPPLEMENTAL APPROPRIATIONS	FINAL BUDGET
<i>General Fund</i>	\$ 40,748,229	\$ 3,646,968	\$ 44,395,197
<i>Special Revenue Funds:</i>			
Street Fund	4,342,923	713,888	5,056,811
Arterial Street Fund	1,523,500	469,704	1,993,204
Utility Tax Fund	12,886,357	(4,170)	12,882,187
Solid Waste/Recycling Fund	420,575	35,867	456,442
Hotel/Motel Lodging Tax	161,300	248,623	409,923
Federal Way Community Center	2,177,404	67,716	2,245,120
Traffic Safety	830,000	26,754	856,754
<i>Subtotal Special Revenue Funds:</i>	22,342,059	1,558,382	23,900,441
<i>Debt Service Fund</i>	2,182,669	-	2,182,669
Total:	\$ 65,272,957	\$ 5,205,350	\$ 70,478,307

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 Local Government Investment Pool, bankers' acceptances, or deposits with Washington State banks and savings and loan institutions. In 2012 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, 2012, the equity in pooled cash and investments was \$70,761,104.

At year-end, the City had \$70,761,104 in cash and cash equivalents which consisted of investments with the Local Government Investment Pool of \$66,472,650 the City's checking account bank balance prior to outstanding checks was \$4,189,117; and petty cash and change funds, advance travel fund and investigative fund totaling \$48,710, and Court Trust of \$50,627. No deposits were uninsured or uncollateralized. Insurance coverage up to \$250,000 is through federal depository insurance and the Washington Public Deposit Protection Commission (WPDP) for amounts over \$250,000. Under State statute, members of WPDP, 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 Local Government Investment Pool is managed by the Treasurer of the State of Washington.

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

**SCHEDULE OF INVESTMENTS BY MATURITIES
AS OF DECEMBER 31, 2012**

Investment Type	Book Value	Investment maturities		
		Less than 1 year	1 to 2 years	Greater than 3 years
State Investment Pool	\$ 66,472,650	\$ 66,472,650	\$ -	\$ -
	\$ 66,472,650	\$ 66,472,650	\$ -	\$ -
<u>Reconciliation of Government-Wide Statement of Net Position:</u>				
Key Bank and Bank of America checking account per books		\$ 4,189,117		
Petty cash/change fund/advance travel/investigative fund		48,710		
Local Government Investment Pool		66,472,650		
Municipal Court Trust on books		50,627		
Subtotal cash and cash equivalents		70,761,104		
Cash with escrow agent		-		
Total cash and investments, Government-Wide				
Statement of Net Position		\$ 70,761,104		

Investments

Interest Rate Risk

As a means of limiting its exposure to fair value losses arising from rising interest rates, the City's investment 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 counter-party has to an investment in not fulfilling 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: Local Government 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, 2012, 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:

SCHEDULE OF INVESTMENTS BY FUND CATEGORY AND INVESTMENT TYPE AS OF DECEMBER 31, 2012			
Fund Type	State Investment		Total
	Pool		
General Fund	\$	13,495,702	\$ 13,495,702
Special Revenue Funds		11,953,530	11,953,530
Capital Projects Funds		21,627,894	21,627,894
Enterprise Funds		3,377,465	3,377,465
Internal Services Funds		16,018,059	16,018,059
Total:	\$	66,472,650	\$ 66,472,650

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.

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.

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 \$329,242. Of this, \$307,489 is recorded as deferred inflow of resources, since it was not collected within the first 30 days of 2013.

Property taxes are recorded as a receivable when levied, offset by deferred inflow of resources. 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 \$1.60. The remaining \$2.00 is for the fire district (\$1.50) and library district (\$0.50).

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 2012 was \$1.3011 per \$1,000 on an assessed valuation of \$7,722,983,802 for a total regular levy of \$9,967,650.

Deferred Inflows of Resources

The table below provides details of the deferred inflows of resources as reported on the statement of net position. Grant reimbursements and refuse collection fees are receivable within one year of the end of the fiscal period.

DEFERRED INFLOWS OF RESOURCES AS OF DECEMBER 31, 2012									
Deferred Inflows of Resources	General	Street	Downtown Redev.	Debt Service	Nonmajor Gov't	Total General Govt	Surface Water Mgmt	Dumas Bay Centre	Total Proprietary
Property tax	\$ 315,391	\$ -	\$ (7,902)	\$ -	\$ -	\$ 307,489	\$ -	\$ -	\$ -
SWM fees	-	-	-	-	-	-	114,631	-	114,631
Public Defender Grant	23,000	-	-	-	-	23,000	-	-	-
King County New Solution Grant	428	-	-	-	-	428	-	-	-
Commute Trip Reduction Grant	-	65,009	-	-	-	65,009	-	-	-
South King Fire & Rescue Buy-In of ValleyCom	-	-	-	97,050	-	97,050	-	-	-
Recreation programs / facility rentals	36,779	-	-	-	97,734	134,513	-	180,546	180,546
Total by Fund:	\$ 375,598	\$ 65,009	\$ (7,902)	\$ 97,050	\$ 97,734	\$ 627,489	\$ 114,631	\$ 180,546	\$ 295,177

Receivables & Due from Other Governments

The receivables for the fiscal year ended December 31, 2012 on the government-wide statement of net position are detailed in the following schedule.

RECEIVABLES & DUE FROM OTHER GOVERNMENTS AS OF DECEMBER 31, 2012										
Receivable	General	Street	Utility Tax	Debt Service	Downtown Redevelopment	Transport- ation	Nonmajor Gov't	Proprietary	Total	
Property tax	\$ 337,123	\$ -	\$ -	\$ -	(7,880)	\$ -	\$ -	\$ -	\$ 329,242	
Real Estate Excise tax	-	-	-	301,156	-	-	-	-	301,156	
Utility tax	-	-	1,177,253	-	-	-	-	-	1,177,253	
Gambling tax	24,134	-	-	-	-	-	-	-	24,134	
Recreation programs/ facilities	4,676	-	-	-	-	-	46,693	16,867	68,237	
Grants & contributions	156,957	15,273	-	-	-	153,407	309,320	382,251	1,017,208	
Other receivable	-	-	-	-	-	-	-	-	-	
State Shared revenue	1,092,047	81,271	3,025	935	-	24,266	52,255	-	1,253,800	
Surface Water Management fees	-	-	-	-	-	-	-	168,221	168,221	
Total by Fund:	\$ 1,614,937	\$ 96,544	\$ 1,180,278	\$ 302,091	\$ (7,880)	\$ 177,673	\$ 408,268	\$ 567,340	\$ 4,339,252	

NOTE 7 – DUE TO OTHER GOVERNMENTS

At December 31, 2012, the City recorded \$18,265 as due to other governmental units as follows:

DUE TO OTHER GOVERNMENT AS OF DECEMBER 31, 2012	
	Surface Water Mgmt.
King County - 2012 SWM collection fee	\$ 18,265
Total Business-Type Activities	\$ 18,265

NOTE 8 – CAPITAL ASSETS

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

CAPITAL ASSETS AS OF DECEMBER 31, 2012				
Governmental Activity	Beginning Balance 1/1/2012	Additions	Deletions	Ending Balance 12/31/2012
Capital Assets, not being depreciated:				
Land	\$ 302,168,217	\$ 1,397,358	\$ -	\$ 303,565,575
Construction in progress	21,158,058	3,964,704	(2,379,234)	22,743,528
Total capital assets, not being depreciated:	323,326,275	5,362,062	(2,379,234)	326,309,103
Capital assets, being depreciated:				
Buildings	17,149,019	18,153	-	17,167,172
Improvements other than buildings	43,865,580	-	-	43,865,580
Infrastructure	147,163,554	4,041,184	-	151,204,738
Machinery & equipment	15,219,018	1,408,815	(638,132)	15,989,701
Total capital assets, being depreciated:	223,397,171	5,468,152	(638,132)	228,227,191
Less accumulated depreciation for:				
Buildings	(5,612,875)	(909,147)	-	(6,522,022)
Improvements other than buildings	(14,929,777)	(2,193,279)	-	(17,123,056)
Infrastructure	(33,305,214)	(3,886,582)	-	(37,191,796)
Machinery & equipment	(10,150,677)	(1,273,807)	632,836	(10,791,648)
Total accumulated depreciation:	(63,998,542)	(8,262,815)	632,836	(71,628,522)
Total assets being depreciated, net	159,398,629	(2,794,663)	(5,296)	156,598,669
Governmental activities capital assets, net	\$ 482,724,905	\$ 2,567,399	\$ (2,384,530)	\$ 482,907,774

Business-Type Activities	Beginning Balance 1/1/2012	Additions	Deletions	Ending Balance 12/31/2012
Capital Assets, not being depreciated:				
Land	\$ 10,310,215	\$ 623,313	\$ -	\$ 10,933,528
Construction in progress	2,453,470	102,667	(153,691)	2,402,446
Total capital assets, not being depreciated:	12,763,685	725,980	(153,691)	13,335,974
Capital assets, being depreciated:				
Buildings	3,600,864	-	-	3,600,864
Improvements other than buildings	47,818,768	153,691	-	47,972,459
Infrastructure	1,916,645	-	-	1,916,645
Machinery & equipment	118,374	-	-	118,374
Total capital assets, being depreciated:	53,454,650	153,691	-	53,608,341
Less accumulated depreciation for:				
Buildings	(2,619,980)	(180,043)	-	(2,800,023)
Improvements other than buildings	(12,328,736)	(478,188)	-	(12,806,924)
Infrastructure	(100,642)	(19,166)	-	(119,808)
Machinery & equipment	(88,418)	(2,946)	-	(91,364)
Total accumulated depreciation:	(15,137,776)	(680,343)	-	(15,818,119)
Total assets being depreciated, net	38,316,874	(526,652)	-	37,790,222
Business-Type activities capital assets, net	\$ 51,080,558	\$ 199,328	\$ (153,691)	\$ 51,126,195

At the end of 2012, 23 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, 2012, are as follows:

AS OF DECEMBER 31, 2012		
Governmental Activities Projects	Construction in progress	Remaining Commitment
Downtown Redevelopment	\$ 279,919	\$ -
Major Facility Rehabilitation	231,109	56,371
Performing Arts Center	229,530	601,118
Regional Park Development	300,666	-
Lakota Park	166,912	-
Hylebos Boardwalk Replacement	1,361,909	27,602
Sacajawea Park Masterplan	627,949	104,553
Trail and pedestrian access improvements	80,206	1,160,728
Laurelwood	40,460	161,984
Lakota Soccer Field Upgrade	-	391,000
S 320th St @ 20th Ave South	268,126	3,879,047
SW 312th ST @ SR509	282,829	1,232,657
10th Avenue SW / SW 344th St: SW Campus Drive - 21st Ave SW	252,301	66,137
S 352nd Street Extension From SR-99 to SR-161	452,008	-
South 320th st @ 1-5 southbound ramp	3,128,090	620,912
South 356th St: SR99 - SR161	145	1,097,249
SR99 HOV Lanes Phase 4	13,181,250	442,661
SR99 HOV Lanes Phase 5	-	2,000,809
SW 336th Way / SW 340th St: 26th Pl SW - Hoyt Rd	52,312	212,396
21ST AVE SW @ SW 336TH ST	795,240	4,523,042
Citywide Flashing Yellow Lights Installation	137,834	5,101
SR 99 @ S 312th St	7,260	55,857
S 344th Way @ Weyerhaeuser Way S	281,685	11,384
Mrk Twain Elementary Safe Route to School Impr	370,965	15,092
SW 312th St & 14th Ave SW Lakota Safe Rt to School Imp	214,819	818,395
Total governmental activities	\$ 22,743,528	\$ 17,484,095

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

CAPITAL ASSETS DEPRECIATION BY TYPE AS OF DECEMBER 31, 2012	
Governmental and Internal Service Activities	
General government	\$ 319,151
Security of persons & property	1,146,690
Transportation	4,201,783
Physical environment	25,670
Economic environment	148,781
Health	30,350
Culture & recreation	2,390,390
Total Depreciation - Governmental Activities	\$ 8,262,815
Business-Type Activities	
Utilities - Surface Water Management	\$ 498,346
Culture & recreation - Dumas Bay Centre	181,997
Total Depreciation - Business-Type Activities	\$ 680,343

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.

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 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 1,184 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2012:

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

Funding Policy

Each biennium, the state Pension Funding Council adopts PERS Plan 1 employer contribution rates, PERS Plan 2 employer and employee contribution rates, and PERS Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent for state agencies and local government unit employees, and at 7.5 percent for state government elected officials. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. 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, 2012, are as follows:

Members not participating in JBM:

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

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

** 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:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	7.21%*	7.21%	7.21%**
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:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2012	\$ 1,588	\$ 708,790	\$ 132,404
2011	\$ 2,872	\$ 623,807	\$ 111,278
2010	\$ 7,826	\$ 571,406	\$ 104,390

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 373 participating employers in LEOFF. Membership in LEOFF consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2012:

Retirees and beneficiaries receive benefits	9,947
Terminated plan members entitled to but not yet receiving benefits	656
Active plan members vest	13,942
Active plan members nonvested	3,113
Total	27,658

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:

	LEOFF Plan 1	LEOFF Plan 2
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:

	LEOFF Plan 1	LEOFF Plan 2
2012	-	\$ 575,718
2011	-	\$ 577,434
2010	-	\$ 589,769

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 2012, there were a total of 297 individuals covered by this system. As of the end of the year, 294 remained as active employees of the City and six were drawing retirement benefits. The 15 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 2012 was \$20,344,866 and total City payroll was \$24,017,446. Actual City contributions for the year were \$1,158,306. Actual employee contributions were \$1,381,059. 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, 2012 were \$1,713,739.

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 2012.

The following is a summary of coverage in force in 2012.

SCHEDULE OF INSURANCE IN FORCE AS OF DECEMBER 31, 2012			
Company	Policy Period	Details of Coverage	Liability Limits
WCIA	1/1/12-12/31/12	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	1/1/12-12/31/12	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	1/1/12-12/31/12	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	1/1/12-12/31/12	Automobile Physical Damage for Scheduled Automobiles	Actual Cash Value. Deductible \$1,000 per occurrence for scheduled automobiles
WCIA	1/1/12-12/31/12	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 Except. Turbine Generator Unites, 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 31st, 2012 the City had \$1,529,657 in reserve.

Unemployment compensation benefits	2011	2012
Unemployment reserve, Jan. 1st	\$ 1,407,110	\$ 1,407,110
Unemployment compensation benefits	248,718	225,920
Claim payments during the year	(248,718)	(103,373)
Unemployment reserve, Dec. 31st	\$ 1,407,110	\$ 1,529,657

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 because 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 2012 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 with the exception of SCORE interest payments which in 2012 were paid from the General Fund. Future SCORE debt service will be paid from the 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, 2012										
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-Ins	Nov 15, 03	Dec 01, 33	4.676	\$ 15,000,000	\$ 12,650,000	\$ -	\$ 340,000	\$ 12,310,000	
Subtotal GO Bonds:	-	-	-	-	15,000,000	12,650,000	-	340,000	12,310,000	
Other Miscellaneous Debt-Intergovernmental:										
2000 Limited/Valley Comm. PDA	A1	Sep 12, 00	Dec 01, 15	5.31	2,551,600	848,000	-	201,000	647,000	
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	15,507,950	-	201,000	15,306,950	
Subtotal GO Bonds plus Misc.					32,211,550	28,157,950	-	541,000	27,616,950	
Compensated absences	-	-	-	-	-	1,573,280	1,440,830	1,511,076	1,503,034	
Subtotal GO bonds, misc. & comp absences:	-	-	-	-	32,211,550	29,731,230	1,440,830	2,052,076	29,119,984	
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	27,567	-	12,936	14,631	
PWTL - Kitts Corner Drain Imp	-	Jul 24, 96	Jul 01, 14	1.00	1,166,580	197,513	-	64,680	132,833	
PWTL - Kitts Corner Drain Imp	-	Sep 04, 97	Jul 01, 14	1.00	155,544	33,637	-	8,624	25,013	
PWTL - SeaTac Mall Drain Imp	-	May 31, 00	Jul 01, 19	1.00	412,500	128,160	-	16,020	112,140	
PWTL - SeaTac Mall Drain Imp	-	Aug 14, 00	Jul 01, 19	1.00	2,062,500	640,799	-	80,099	560,700	
Subtotal PWTFL	-	-	-	-	4,030,440	1,027,676	-	182,359	845,317	
Compensated absences	-	-	-	-	-	78,701	78,093	89,728	67,066	
Subtotal PWTFL plus compensated absences:	-	-	-	-	4,030,440	1,106,377	78,093	272,087	912,383	
Grand Total All Long-Term Debt:	-	-	-	-	\$36,241,990	\$30,837,607	\$ 1,518,923	\$ 2,324,163	\$30,032,367	

OUTSTANDING GENERAL OBLIGATION DEBT AND LONG-TERM LIABILITIES - BY FUND							
DECEMBER 31, 2012							
Description	Amount Originally Issued	Beginning Outstanding Debt	Amount Issued	Amount Redeemed*	Ending Outstanding Debt	Due within one year	
Governmental Long-Term Debt:							
<i>General Obligation Bonds:</i>							
2003 Limited/Community Center	\$ 15,000,000	\$ 12,650,000	\$ -	\$ 340,000	\$ 12,310,000	\$ 355,000	
Subtotal GO Bonds:	15,000,000	12,650,000	-	340,000	12,310,000	355,000	
Other Miscellaneous Debt-Intergovernmental:							
2000 Limited/Valley Comm. PDA	2,551,600	848,000	-	201,000	647,000	215,000	
2009 SCORE/Special Obligation Bond	14,659,950	14,659,950	-	-	14,659,950	325,550	
Subtotal miscellaneous:	17,211,550	15,507,950	-	201,000	15,306,950	540,550	
Subtotal GO Bonds plus Misc.	32,211,550	28,157,950	-	541,000	27,616,950	895,550	
Compensated absences	-	1,573,280	1,440,830	1,511,076	1,503,034	94,020	
Subtotal GO bonds, misc. & comp absences:	32,211,550	29,731,230	1,440,830	2,052,076	29,119,984	989,570	
Business-Type Activities:							
<i>Enterprise Funds:</i>							
Public Works Trust Fund Loan	4,030,440	1,027,676	-	182,359	845,317	182,359	
Subtotal Bus-Type Long-Term Debt	4,030,440	1,027,676	-	182,359	845,317	182,359	
Compensated absences	-	78,701	78,093	89,728	67,066	3,274	
Total Bus-Type plus comp. absences LTD:	4,030,440	1,106,377	78,093	272,087	912,383	185,633	
Grant Total All Long-Term Debt:	\$ 36,241,990	\$ 30,837,607	\$ 1,518,923	\$ 2,324,163	\$ 30,032,367	\$ 1,175,203	

* Debt service principal payments in Debt Service Fund include credits of \$30,150 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, 2012				
	Beginning Outstanding Debt	Additions	Reductions	Ending Outstanding Debt
Governmental Activities:				
General Obligation Bonds	\$ 12,650,000	\$ -	\$ (340,000)	\$ 12,310,000
Other-intergovernmental debt	15,507,950	-	(201,000)	15,306,950
Compensated absences	1,573,280	1,440,830	(1,511,076)	1,503,034
Total Governmental Activities	29,731,230	1,440,830	(2,052,076)	29,119,984
Business-Type Activities:				
<i>Enterprise Funds</i>				
Public Works Trust Fund Loan	1,027,676	-	(182,359)	845,317
Compensated absences	78,701	78,093	(89,728)	67,066
Total Business-Type Activities	1,106,377	78,093	(272,087)	912,383
Total All Funds	\$ 30,837,607	\$ 1,518,923	\$ (2,324,163)	\$ 30,032,367

SCHEDULE OF DEBT SERVICE REQUIREMENTS TO MATURITY							
AS OF DECEMBER 31, 2012							
Year	Government Activities		Business-Type Activities		Grand Total		
	General Governmental Debt		Public Work Trust Fund		Principal	Interest	P&I
	Principal	Interest	Principal	Interest			
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
Total	\$ 27,616,950	\$ 17,171,026	\$ 845,317	\$ 29,501	\$ 28,462,267	\$ 17,200,527	\$ 45,662,793

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, 2012 are:

General government (no vote required)	\$ 81,530,018
General government (3/5 majority vote required)	71,428,320
Parks and open space (3/5 majority vote required)	178,570,799
Utilities (3/5 majority vote required)	178,570,799
Total Capacity	\$ 510,099,936

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	\$ 94,020
Noncurrent portion	1,409,014
<i>Business-Type Activities:</i>	
Current portion	3,274
Noncurrent portion	63,792
Total Compensated absences \$ 1,570,100	

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, 2012 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, 2012. 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:

2012	3,000
2013	3,000
2014	3,000
2015	1,500
Total:	\$ 10,500

NOTE 12 – INTERFUND TRANSACTIONS

Interfund transfers for the year ended December 31, 2012 were as follows:

Interfund Transfers	In	Out
Governmental Funds:		
General Fund	\$ 9,088,018	\$ 1,772,871
Street Fund	2,419,371	8,343
Utility Tax Fund	-	12,554,760
Debt Service	913,892	1,025,000
Downtown Redevelopment	-	-
Transportation	1,621,000	-
Nonmajor Governmental Funds	2,186,000	1,007,807
Proprietary Funds:		
Surface Water Management	409,181	409,181
Dumas Bay Centre	140,500	-
Internal Service Funds	56,790	56,790
Total:	\$ 16,834,752	\$ 16,834,752

The following describes the amounts transferred out during 2012:

General Fund:

- \$1,716,371 to Street Fund to subsidize street maintenance and operations
- \$27,500 to DBC for roof repair and pump station
- \$25,000 to Federal Way Community Center for use of facilities by General Parks and Recreation
- \$4,000 to CDBG for Consolidated Plan update

Street Fund:

- \$8,343 to General Fund for support of Secure Our School Grant contribution

Utility Tax Fund:

- \$2,702,868 to General Fund for Proposition 1 for Public Safety and Community Programs Funding
- \$925,000 for SCORE
- \$913,892 to Federal Way Community Center Debt Service
- \$1,021,000 to Arterial Street Fund overlay program
- \$616,000 to General Fund for Public Safety Positions
- \$227,000 to General Fund for Celebration Park maintenance & operations
- \$373,000 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
- \$49,000 to General Fund for new Parks maintenance and operations
- \$706,000 to Federal Way Community Center for maintenance/operations and capital reserves
- \$3,940,000 to General Fund for ongoing support of operations
- \$543,000 to Transportation CIP project SW 312th St at SR509
- \$153,000 to Transportation CIP project 21st Ave Southwest at Southwest 336th St.
- \$50,000 to Parks CIP Major Maintenance-Parks Facilities
- \$50,000 to Parks CIP for Playgrounds
- \$75,000 to Parks CIP for Sacajawea Park Masterplan

Debt Service Fund:

- \$834,000 of Real Estate Excise Tax to Transportation CIP project South 344th Way at Weyerhaeuser Way S
- \$91,000 of Real Estate Excise Tax to Transportation CIP project 21st Ave SW at SW 336th St.
- \$100,000 of Real Estate Excise Tax to Parks CIP for Playgrounds

Proprietary Funds:

- \$179,181 from Surface Water Management CIP to Surface Water Management Operations
- \$230,000 from Surface Water Management Operations to Surface Water Management CIP for Small Projects

Internal Service:

- \$56,790 from Risk management to Fleet/Equipment for insurance proceeds

Nonmajor Fund:

- \$50,000 from Traffic Safety Fund to General Fund for support of Municipal Court
- \$450,000 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
- \$22,807 from CDBG Fund to General Fund for Recreation Inclusive Coordinator
- \$155,000 from Paths & Trails Fund to Parks CIP Trail and Pedestrian Access Improvements

Interfund loans for the year ended December 31, 2012 were as follows:

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

NOTE 13 – CONTINGENCIES AND LITIGATION

As of December 31, 2012 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, 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 was automatically extended for a consecutive five year-period.

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 2012 cost distributions for the five member cities are as follows:

City	Dispatchable Calls	Percent of Total
Kent	96,126	28.28%
Renton	72,004	21.18%
Auburn	65,612	19.30%
Tukwila	33,645	9.90%
Federal Way	72,547	21.34%
Total	339,934	100.00%

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 2012					
	Kent	Renton	Auburn	Tukwila	Federal Way	Total
Equity @ January 1, 2012	\$ 7,052,093	\$ 4,996,753	\$ 4,723,727	\$ 2,812,717	\$ 3,258,408	\$ 22,843,698
Current year increase	87,685	65,681	59,850	30,690	66,176	310,082
Equity @ December 31, 2012	\$ 7,139,778	\$ 5,062,434	\$ 4,783,577	\$ 2,843,407	\$ 3,324,584	\$ 23,153,780
Percent of equity	30.84%	21.86%	20.66%	12.28%	14.36%	100.00%
Prior year's percent of equity	30.87%	21.87%	20.68%	12.31%	14.26%	100.00%

A complete set of financial statements is available from:
Valley Communications Center, 27519 108th 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		Total	Auburn 31%	Burien 4%	Federal Way 18%	Renton 36%	SeaTac 3%	Tukwila 8%
			Subsidy								
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	2,145,000	4,820,241	(1,621,980)	5,343,261	1,656,411	213,730	961,787	1,923,574	160,298	427,461	
2018-2022	11,990,000	22,399,915	(7,748,350)	26,641,565	8,258,885	1,065,663	4,795,482	9,590,963	799,247	2,131,325	
2023-2027	14,485,000	18,727,798	(6,710,481)	26,502,317	8,215,718	1,060,093	4,770,417	9,540,834	795,070	2,120,185	
2028-2032	17,725,000	13,590,870	(4,959,695)	26,356,175	8,170,414	1,054,247	4,744,112	9,488,223	790,685	2,108,494	
2033-2037	21,855,000	7,082,263	(2,731,829)	26,205,434	8,123,685	1,048,217	4,716,978	9,433,956	786,163	2,096,435	
2038-2039	10,115,000	676,321	(353,824)	10,437,497	3,235,624	417,500	1,878,749	3,757,499	313,125	835,000	
Total	\$ 86,235,000	\$ 87,397,927	\$ (30,721,797)	\$ 142,911,130	\$ 44,302,450	\$ 5,716,445	\$ 25,724,004	\$ 51,448,007	\$ 4,287,334	\$ 11,432,891	

*Of the \$25,724,004 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, 2012 related to SCORE:

South Correction Entity (SCORE) 2012 Owner Cities Equity Allocation				
Member City	Percent of Equity	2011 Equity Balance	2012	
			Distribution	Equity Balance
Auburn	31.00%	\$ 3,189,320	\$ (1,820,461)	\$ 1,368,859
Burien	4.00%	411,525	(234,898)	176,627
Federal Way	18.00%	1,851,863	(1,057,043)	794,820
Renton	36.00%	3,703,728	(2,114,084)	1,589,644
SeaTac	3.00%	308,643	(176,174)	132,469
Tukwila	8.00%	823,050	(469,796)	353,254
Total	100.00%	\$ 10,288,129	\$ (5,872,456)	\$ 4,415,673

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

NOTE 15 – ACCOUNTING AND REPORTING CHANGES

Effective for financial statements for periods beginning after December 15, 2011, the City implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflow of Resources and Net Position*. GASB Statement No. 63 provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources, introduced and defined in GASB Concepts Statement No. 4. This Statement amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets.

Effective for financial statements for periods beginning after December 15, 2012, the City implemented early, GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. GASB Statement No. 65 establishes accounting and reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were reported as assets and liabilities.

NOTE 16 – SUBSEQUENT EVENTS

On January 1, 2013, the City transferred coverage from the Washington Cities Insurance Authority to three new insurance providers. The City hopes eventually to become self-insured, which the City believes will provide a greater ability to control cost and implement frugal innovation. The new insurance carriers will allow the City to move toward its goal of self-insurance by allowing the City to self-insure up to \$250,000, while providing insurance for claims that may exceed that amount. Brit Global Specialty USA is the carrier providing general liability, automobile liability, public officials miscellaneous liability, employee benefits liability and law enforcement activities coverage with a \$250,000 self-insurance retention with aggregate limits of \$10,000,000. Philadelphia Insurance Companies is the carrier for property liability with a \$25,000 deductible with single loss limits of \$36,897,057 for building and \$3,849,548 in contents. Travelers Casualty and Surety Company of America is the carrier providing public officials and crime fidelity insurance. Coverage includes fidelity

for employee theft, forgery or alteration, on premises, in transit, money orders and counterfeit money, computer crime, fund transfer fraud, and claims expense with a deductible ranging from \$5,000 to \$25,000 with single loss limits ranging from \$50,000 to \$1,000,000.

In February 2013 Moody's Investors Service assigned an Aa3 rating to the City's Limited Tax General Obligation Refunding Bonds, 2013. At the same time, Moody's affirmed the Aa3 rating on the City's approximately \$355,000 limited tax G.O. bonds, post refunding. Moody's also affirmed the City's Aa2 unlimited tax GO-equivalent issuer rating. In March 2013 the city issued advance refunding bonds for the purpose of refunding the 2003 Federal Way Community Center bonds on December 1, 2013. Details of the refunding bond are as follows: Issue Amount \$12,415,000; True Interest Cost 2.886%; Net Present Value of Refunded Par 14%; Net Present Value Savings \$1,741,000.

Combining Statement – Nonmajor Governmental Funds’ Description For the Year Ended December 31, 2012

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.

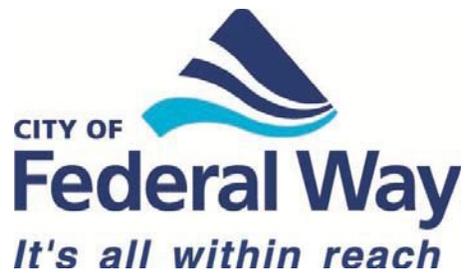
The *Path and Trails Reserve Fund* was established in accordance with State law to accumulate unexpended proceeds of the City's ½% motor vehicle fuel tax receipts which are restricted in use to the construction and maintenance of paths and trails within City right-of-way. In August 2007, King County 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, 2012

	Special Revenue	Capital Projects	Total
ASSETS			
Equity in pooled cash & investments	\$ 4,294,342	\$ 3,410,809	\$ 7,705,151
Receivables (net):			
Accounts and contracts	46,693	-	46,693
Due from other governments	361,575	-	361,575
TOTAL ASSETS	4,702,610	3,410,809	8,113,419
 LIABILITIES AND FUND BALANCES			
Liabilities:			
Vouchers payable	345,601	12,692	358,293
Deposits payable	12,206	-	12,206
Interfund loans payable	10,000	-	10,000
TOTAL LIABILITIES	367,807	12,692	380,499
 DEFERRED INFLOW OF RESOURCES	97,734		
 Fund Balance:			
Restricted	812,174	2,429,593	3,241,767
Committed	3,424,896	968,524	4,393,420
TOTAL FUND BALANCES	4,237,069	3,398,117	7,635,187
 TOTAL LIABILITIES AND FUND BALANCE	 \$ 4,702,610	 \$ 3,410,809	 \$ 8,113,419

COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS
December 31, 2012

	Arterial Street	Solid Waste Recycling	Special Contracts/ Studies	Hotel/Motel Lodging Tax
ASSETS				
Equity in pooled cash & investments	\$ 41,864	\$ 121,158	\$ 502,613	\$ 88,879
Receivables (net):				
Accounts and contracts	-	-	-	-
Due from other governments	37,997	60,446	-	13,537
TOTAL ASSETS	79,861	181,604	502,613	102,416
LIABILITIES AND FUND BALANCES				
Liabilities:				
Vouchers payable	332	9,602	238	-
Deposits payable	-	-	-	-
Interfund loans payable	-	-	-	-
TOTAL LIABILITIES	332	9,602	238	-
DEFERRED INFLOW OF RESOURCES	-	-	-	-
Fund Balance:				
Restricted	-	-	502,375	102,416
Committed	79,530	172,002	-	-
TOTAL FUND BALANCES	79,530	172,002	502,375	102,416
TOTAL LIABILITIES AND FUND BALANCE	\$ 79,861	\$ 181,604	\$ 502,613	\$ 102,416

COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS
December 31, 2012

	Federal way Community Center	Traffic Safety	Community Development Block Grant	Paths and Trails Reserve	Total
ASSETS					
Equity in pooled cash & investments	\$ 1,318,533	\$ 2,031,182	\$ 24,165	\$ 165,947	\$ 4,294,341
Receivables (net):					
Accounts and contracts	46,693	-	-	-	46,693
Due from other governments	-	-	248,874	721	361,575
TOTAL ASSETS	1,365,226	2,031,182	273,039	166,668	4,702,609
LIABILITIES AND FUND BALANCES					
Liabilities:					
Vouchers payable	57,788	55,316	222,325	-	345,600
Deposits payable	12,206	-	-	-	12,206
Interfund loans payable	-	-	10,000	-	10,000
TOTAL LIABILITIES	69,994	55,316	232,325	-	367,806
DEFERRED INFLOW OF RESOURCES	97,734	-	-	-	97,734
Fund Balance:					
Restricted	-	-	40,715	166,668	812,174
Committed	1,197,498	1,975,866	-	-	3,424,896
TOTAL FUND BALANCES	1,197,498	1,975,866	40,715	166,668	4,237,069
TOTAL LIABILITIES AND FUND BALANCE	\$ 1,365,226	\$ 2,031,182	\$ 273,039	\$ 166,668	\$ 4,702,609

COMBINING BALANCE SHEET
NONMAJOR CAPITAL PROJECTS FUNDS
December 31, 2012

	City Facilities	Parks	Total
ASSETS			
Equity in pooled cash & investments	\$ 1,137,853	\$ 2,272,957	\$ 3,410,810
TOTAL ASSETS	1,137,853	2,272,957	3,410,810
 LIABILITIES AND FUND BALANCES			
Liabilities:			
Vouchers payable	-	12,692	12,692
TOTAL LIABILITIES	-	12,692	12,692
 Fund Balance:			
Restricted	657,781	1,771,812	2,429,593
Committed	480,071	488,453	968,524
TOTAL FUND BALANCES	1,137,852	2,260,265	3,398,117
 TOTAL LIABILITIES AND FUND BALANCE	\$ 1,137,853	\$ 2,272,957	\$ 3,410,810

**COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For Year Ended December 31, 2012**

	Special Revenue	Capital Projects	Total
REVENUES			
Taxes	\$ 353,955	\$ -	\$ 353,955
Intergovernmental	1,539,408	-	1,539,408
Service charges and fees	1,802,294	114,878	1,917,172
Fines and forfeitures	2,260,336	-	2,260,336
Interest	2,882	3,496	6,378
Other	234,988	3,739	238,728
TOTAL REVENUES	6,193,863	122,113	6,315,977
EXPENDITURES			
Current:			
General government	929,044	10,124	939,168
Security of persons and property	9,386	-	9,386
Transportation	1,937,144	-	1,937,144
Physical environment	409,042	-	409,042
Economic environment	304,489	-	304,489
Culture and recreation	2,214,485	30,445	2,244,930
Capital outlay	20,859	807,924	828,783
TOTAL EXPENDITURES	5,824,449	848,493	6,672,942
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	369,414	(726,380)	(356,965)
OTHER FINANCING SOURCES (USES)			
Transfers in	1,756,000	430,000	2,186,000
Transfers out	(1,007,807)	-	(1,007,807)
TOTAL OTHER FINANCING SOURCES (USES)	748,193	430,000	1,178,193
NET CHANGE IN FUND BALANCES	1,117,607	(296,380)	821,228
FUND BALANCES - BEGINNING	3,119,462	3,694,497	6,813,959
FUND BALANCES - ENDING	\$ 4,237,069	\$ 3,398,117	\$ 7,635,187

**COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR SPECIAL REVENUE FUNDS
For Year Ended December 31, 2012**

	Arterial Street	Solid Waste Recycling	Special Contracts/ Studies	Hotel/Motel Lodging Tax
REVENUES				
Taxes	\$ -	\$ -	\$ -	\$ 193,344
Intergovernmental	484,393	139,966	-	-
Service charges and fees	41,500	282,584	-	-
Fines and forfeitures	-	3,700	-	-
Interest	77	119	481	77
Other	-	695	-	-
TOTAL REVENUES	525,970	427,064	481	193,421
EXPENDITURES				
Current:				
General government	-	-	34,000	-
Security of persons and property	-	-	-	-
Transportation	1,937,144	-	-	-
Physical environment	-	409,042	-	-
Economic environment	-	-	-	304,489
Culture and recreation	-	-	-	-
Capital outlay	-	-	20,859	-
TOTAL EXPENDITURES	1,937,144	409,042	54,859	304,489
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(1,411,174)	18,022	(54,378)	(111,068)
OTHER FINANCING SOURCES (USES)				
Transfers in	1,021,000	-	-	-
Transfers out	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	1,021,000	-	-	-
NET CHANGE IN FUND BALANCES	(390,174)	18,022	(54,378)	(111,068)
FUND BALANCES - BEGINNING	469,704	153,980	556,753	213,484
FUND BALANCES - ENDING	\$ 79,530	\$ 172,002	\$ 502,375	\$ 102,416

**COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR SPECIAL REVENUE FUNDS
For Year Ended December 31, 2012**

	Federal way Community Center	Traffic Safety	Community Development Block Grant	Paths and Trails Reserve	Total
REVENUES					
Taxes	\$ -	\$ -	\$ -	\$ 160,611	\$ 353,955
Intergovernmental	-	-	905,854	9,195	1,539,408
Service charges and fees	1,478,210	-	-	-	1,802,294
Fines and forfeitures	-	2,256,636	-	-	2,260,336
Interest	534	1,539	-	55	2,882
Other	234,294	-	-	-	234,988
TOTAL REVENUES	1,713,038	2,258,175	905,854	169,861	6,193,863
EXPENDITURES					
Current:					
General government	-	-	895,044	-	929,044
Security of persons and property	-	9,386	-	-	9,386
Transportation	-	-	-	-	1,937,144
Physical environment	-	-	-	-	409,042
Economic environment	-	-	-	-	304,489
Culture and recreation	2,214,485	-	-	-	2,214,485
Capital outlay	-	-	-	-	20,859
TOTAL EXPENDITURES	2,214,485	9,386	895,044	-	5,824,449
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(501,447)	2,248,789	10,810	169,861	369,414
OTHER FINANCING SOURCES (USES)					
Transfers in	731,000	-	4,000	-	1,756,000
Transfers out	-	(830,000)	(22,807)	(155,000)	(1,007,807)
TOTAL OTHER FINANCING SOURCES (USES)	731,000	(830,000)	(18,807)	(155,000)	748,193
NET CHANGE IN FUND BALANCES	229,553	1,418,789	(7,997)	14,861	1,117,607
FUND BALANCES - BEGINNING	967,945	557,077	48,712	151,807	3,119,462
FUND BALANCES - ENDING	\$ 1,197,498	\$ 1,975,866	\$ 40,715	\$ 166,668	\$ 4,237,069

**COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR CAPITAL PROJECTS FUNDS
For Year Ended December 31, 2012**

	City Facilities	Parks	Total
REVENUES			
Service charges and fees	\$ -	\$ 114,878	\$ 114,878
Interest	1,145	2,351	3,496
Other	500	3,239	3,739
TOTAL REVENUES	1,645	120,468	122,113
EXPENDITURES			
Current:			
General government	10,124	-	10,124
Culture and recreation	-	30,445	30,445
Capital outlay	139,277	668,647	807,924
TOTAL EXPENDITURES	149,401	699,092	848,493
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(147,756)	(578,624)	(726,380)
OTHER FINANCING SOURCES (USES)			
Transfers in	-	430,000	430,000
TOTAL OTHER FINANCING SOURCES (USES)	-	430,000	430,000
NET CHANGE IN FUND BALANCES	(147,756)	(148,624)	(296,380)
FUND BALANCES - BEGINNING	1,285,608	2,408,889	3,694,497
FUND BALANCES - ENDING	\$ 1,137,852	\$ 2,260,265	\$ 3,398,117

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

For Year Ended December 31, 2012

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with
	<u>Original</u>	<u>Final</u>		Final Budget - Positive (Negative)
REVENUES				
Intergovernmental	\$ 500,000	\$ 500,000	\$ 484,393	\$ (15,607)
Service charges and fees	-	-	41,500	41,500
Interest	2,500	2,500	77	(2,423)
TOTAL REVENUES	502,500	502,500	525,970	23,470
EXPENDITURES				
Current:				
Transportation	1,523,500	1,993,204	1,937,144	56,060
TOTAL EXPENDITURES	1,523,500	1,993,204	1,937,144	56,060
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(1,021,000)	(1,490,704)	(1,411,174)	79,530
OTHER FINANCING SOURCES (USES)				
Transfers in	1,021,000	1,021,000	1,021,000	-
TOTAL OTHER FINANCING SOURCES (USES)	1,021,000	1,021,000	1,021,000	-
NET CHANGE IN FUND BALANCES	-	(469,704)	(390,174)	79,530
FUND BALANCES - BEGINNING	-	469,704	469,704	-
FUND BALANCES - ENDING	\$ -	\$ -	\$ 79,530	\$ 79,530

SOLID WASTE & RECYCLING
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL

For Year Ended December 31, 2012

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final		Final Budget - Positive (Negative)
REVENUES				
Intergovernmental	\$ 136,000	\$ 174,736	\$ 139,966	\$ (34,770)
Service charges and fees	278,120	278,120	282,584	4,464
Fines and forfeitures	-	-	3,700	3,700
Interest	-	-	119	119
Other	-	-	695	695
TOTAL REVENUES	414,120	452,856	427,064	(25,792)
EXPENDITURES				
Current:				
Physical environment	420,574	456,441	409,042	47,399
TOTAL EXPENDITURES	420,574	456,441	409,042	47,399
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(6,454)	(3,585)	18,022	21,607
NET CHANGE IN FUND BALANCES	(6,454)	(3,585)	18,022	21,607
FUND BALANCES - BEGINNING	135,093	153,980	153,980	-
FUND BALANCES - ENDING	\$ 128,639	\$ 150,395	\$ 172,002	\$ 21,607

HOTEL/MOTEL LODGING TAX
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL

For Year Ended December 31, 2012

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with
	<u>Original</u>	<u>Final</u>		Final Budget - Positive (Negative)
REVENUES				
Taxes	\$ 155,000	\$ 193,440	\$ 193,344	\$ (96)
Interest	300	500	77	(423)
Other	6,000	2,499	-	(2,499)
TOTAL REVENUES	161,300	196,439	193,421	(3,018)
EXPENDITURES				
Current:				
Economic environment	161,300	409,923	304,489	105,434
TOTAL EXPENDITURES	161,300	409,923	304,489	105,434
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	-	(213,484)	(111,068)	102,416
NET CHANGE IN FUND BALANCES	-	(213,484)	(111,068)	102,416
FUND BALANCES - BEGINNING	-	213,484	213,484	-
FUND BALANCES - ENDING	\$ -	\$ -	\$ 102,416	\$ 102,416

FEDERAL WAY COMMUNITY CENTER
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
For Year Ended December 31, 2012

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>		<u>(Negative)</u>
REVENUES				
Service charges and fees	\$ 1,281,122	\$ 1,281,122	\$ 1,478,210	\$ 197,088
Interest	-	-	534	534
Other	252,500	252,500	234,294	(18,206)
TOTAL REVENUES	1,533,622	1,533,622	1,713,038	179,416
EXPENDITURES				
Current:				
Culture and recreation	2,177,404	2,203,113	2,214,485	(11,372)
TOTAL EXPENDITURES	2,177,404	2,245,120	2,214,485	30,635
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(643,782)	(711,498)	(501,447)	210,051
OTHER FINANCING SOURCES (USES)				
Transfers in	731,000	731,000	731,000	-
TOTAL OTHER FINANCING SOURCES (USES)	731,000	731,000	731,000	-
NET CHANGE IN FUND BALANCES	87,218	19,502	229,553	210,051
FUND BALANCES - BEGINNING	778,960	967,945	967,945	-
FUND BALANCES - ENDING	\$ 866,178	\$ 987,447	\$ 1,197,498	\$ 210,051

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

For Year Ended December 31, 2012

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with
	<u>Original</u>	<u>Final</u>		Final Budget - Positive (Negative)
REVENUES				
Fines and forfeitures	\$ 830,000	\$ 830,000	\$ 2,256,636	\$ 1,426,636
Interest	-	-	1,539	1,539
TOTAL REVENUES	830,000	830,000	2,258,175	1,428,175
EXPENDITURES				
Current:				
Security of persons and property	-	26,754	9,386	17,368
TOTAL EXPENDITURES	-	26,754	9,386	17,368
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	830,000	803,246	2,248,789	1,445,543
OTHER FINANCING SOURCES (USES)				
Transfers out	(830,000)	(830,000)	(830,000)	-
TOTAL OTHER FINANCING SOURCES (USES)	(830,000)	(830,000)	(830,000)	-
NET CHANGE IN FUND BALANCES	-	(26,754)	1,418,789	1,445,543
FUND BALANCES - BEGINNING	105,288	557,077	557,077	-
FUND BALANCES - ENDING	\$ 105,288	\$ 530,323	\$ 1,975,866	\$ 1,445,543

PATH & TRAILS
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL

For Year Ended December 31, 2012

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget - Positive
	<u>Original</u>	<u>Final</u>		<u>(Negative)</u>
REVENUES				
Taxes	\$ 155,000	\$ 155,000	\$ 160,611	\$ 5,611
Intergovernmental	8,000	8,000	9,195	1,195
Interest	-	-	55	55
TOTAL REVENUES	163,000	163,000	169,861	6,861
EXPENDITURES				
Current:				
General government	-	-	-	-
TOTAL EXPENDITURES	-	-	-	-
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	163,000	163,000	169,861	6,861
OTHER FINANCING SOURCES (USES)				
Transfers out	(155,000)	(155,000)	(155,000)	-
TOTAL OTHER FINANCING SOURCES (USES)	(155,000)	(155,000)	(155,000)	-
NET CHANGE IN FUND BALANCES	8,000	8,000	14,861	6,861
FUND BALANCES - BEGINNING	140,768	151,807	151,807	-
FUND BALANCES - ENDING	\$ 148,768	\$ 159,807	\$ 166,668	\$ 6,861

**Budget and Actual – Debt Service Fund Description
For the Year Ended December 31, 2012**

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.

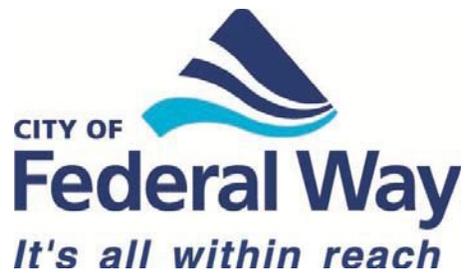
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2012

	<u>Debt Service</u>
ASSETS	
Equity in pooled cash & investments	\$ 3,978,238
Receivables (net):	
Taxes	<u>301,156</u>
TOTAL ASSETS	<u>4,279,394</u>
DEFERRED INFLOW OF RESOURCES	<u>97,050</u>
Fund Balance:	
Restricted	<u>4,182,345</u>
TOTAL FUND BALANCES	<u>4,182,345</u>
TOTAL LIABILITIES AND FUND BALANCE	<u><u>\$ 4,182,345</u></u>

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

For Year Ended December 31, 2012

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>		<u>(Negative)</u>
REVENUES				
Taxes	\$ 900,000	\$ 1,400,000	\$ 1,507,315	\$ 107,315
Interest	15,000	15,000	3,287	(11,713)
TOTAL REVENUES	915,000	1,415,000	1,510,602	95,602
EXPENDITURES				
Debt service:			-	-
Principal	510,850	510,850	480,760	30,090
Interest/fiscal charges/admin fees	1,571,819	646,819	602,572	44,247
TOTAL EXPENDITURES	2,082,669	1,157,669	1,083,332	74,337
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(1,167,669)	257,331	427,270	169,939
OTHER FINANCING SOURCES (USES)				
Transfers in	915,000	915,000	913,892	(1,108)
Transfers out	(100,000)	(1,025,000)	(1,025,000)	-
TOTAL OTHER FINANCING SOURCES (USES)	815,000	(110,000)	(111,108)	(1,108)
NET CHANGE IN FUND BALANCES	(352,669)	147,331	316,162	168,831
FUND BALANCES - BEGINNING	2,662,878	3,866,183	3,866,183	-
FUND BALANCES - ENDING	\$ 2,310,209	\$ 4,013,514	\$ 4,182,345	\$ 168,831



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Combining Statement – Internal Service Fund’s Description For the Year Ended December 31, 2012

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 POSITION

December 31, 2012

	Risk Management	Information Systems	Support Services	Fleet and Equipment	Buildings and Furnishings	TOTAL
ASSETS						
Current Assets						
Equity in pooled cash & investments	\$ 5,628,656	\$ 3,756,957	\$ 287,535	\$ 5,777,473	\$ 1,607,749	\$ 17,058,370
Prepaid items	-	-	5,000	-	-	5,000
TOTAL CURRENT ASSETS	5,628,656	3,756,957	292,535	5,777,473	1,607,749	17,063,370
Noncurrent assets						
Capital assets:						
Building/structures	-	-	-	-	16,515,708	16,515,708
Machinery/furniture/equipment	-	7,201,917	263,815	8,339,968	-	15,805,700
Less accumulated depreciation	-	(5,600,610)	(143,907)	(4,863,127)	(6,099,544)	(16,707,188)
TOTAL NONCURRENT ASSETS	-	1,601,307	119,908	3,476,841	10,416,164	15,614,220
TOTAL CURRENT ASSETS	5,628,656	5,358,264	412,443	9,254,314	12,023,913	32,677,590
LIABILITIES						
Current Liabilities:						
Vouchers/payroll payable	70,782	98,450	6,672	27,716	30,617	234,237
TOTAL CURRENT LIABILITIES	70,782	98,450	6,672	27,716	30,617	234,237
Long-term liabilities:						
Compensated absences payable	-	41,247	-	2,926	-	44,173
TOTAL LONG-TERM LIABILITIES	-	41,247	-	2,926	-	44,173
TOTAL LIABILITIES	70,782	139,697	6,672	30,642	30,617	278,410
NET POSITION						
Net Investment in capital	-	1,601,307	119,908	3,476,841	10,416,164	15,614,220
Unrestricted	5,557,874	3,617,260	285,863	5,746,831	1,577,132	16,784,960
TOTAL NET POSITION	\$ 5,557,874	\$ 5,218,567	\$ 405,771	\$ 9,223,672	\$ 11,993,296	\$ 32,399,180

INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN FUND NET POSITION
For Year Ended December 31, 2012

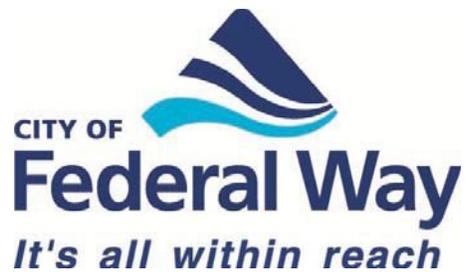
	Risk Management	Information Systems	Support Services	Fleet and Equipment	Buildings and Furnishings	TOTAL
OPERATING REVENUES:						
Service charges and fees	\$ 1,059,742	\$ 1,733,870	\$ 142,038	\$ 2,129,456	\$ 494,095	\$ 5,559,201
Intergovernmental	-	-	-	37,161	32,737	69,898
Miscellaneous	172,790	22,893	-	707	21,219	217,610
TOTAL OPERATING REVENUES	1,232,532	1,756,763	142,038	2,167,324	548,051	5,846,709
OPERATING EXPENSES:						
Personal services	-	634,524	-	37,323	89,424	761,271
Materials and supplies	1,119	24,548	18,885	535,450	27,836	607,838
Services and charges	60,500	480,810	76,040	373,660	299,458	1,290,468
Intergovernmental	51,319	123,918	-	180	-	175,417
Insurance	487,336	-	-	-	-	487,336
Claims	452,921	-	-	-	-	452,921
Depreciation	-	426,519	31,087	816,201	901,625	2,175,432
TOTAL OPERATING EXPENSES	1,053,195	1,690,319	126,012	1,762,814	1,318,343	5,950,683
OPERATING INCOME (LOSS)	179,337	66,444	16,026	404,510	(770,292)	(103,974)
NON-OPERATING REVENUES (EXPENSES):						
Gain (Loss) from disposal of capital assets	-	-	-	47,462	-	47,462
Interest income	3,545	3,505	267	4,996	1,462	13,775
TOTAL NON-OPERATING REVENUES (EXPENSES)	3,545	3,505	267	52,458	1,462	61,237
INCOME (LOSS) BEFORE TRANSFERS	182,882	69,949	16,293	456,968	(768,830)	(42,737)
Capital contributions	-	148,363	-	66,559	-	214,922
Transfers in	-	-	-	56,790	-	56,790
Transfers out	(56,790)	-	-	-	-	(56,790)
CHANGE IN NET POSITION	126,092	218,312	16,293	580,317	(768,830)	172,185
NET POSITION - BEGINNING	5,431,782	5,000,255	389,477	8,643,354	12,762,126	32,226,994
NET POSITION - ENDING	\$ 5,557,874	\$ 5,218,567	\$ 405,771	\$ 9,223,672	\$ 11,993,296	\$ 32,399,180

INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF CASH FLOWS
For Year Ended December 31, 2012

	Risk Management	Information Systems	Support Services
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received from users	\$ 1,059,742	\$ 1,739,446	\$ 142,038
Cash payments to claimants	(452,921)	-	-
Cash payments to suppliers for goods/services	(83,332)	(554,879)	(94,064)
Cash payments to employees	-	(636,363)	-
Cash payments to other governments for goods and services	(538,655)	(123,918)	-
Other operating receipts	172,791	17,318	-
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>157,625</u>	<u>441,604</u>	<u>47,974</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Transfers in	-	-	-
Transfers out	(56,790)	-	-
NET CASH PROVIDED BY NONCAPITAL FINANCING	<u>(56,790)</u>	<u>-</u>	<u>-</u>
CASH FLOWS FROM CAPITAL AND CAPITAL - RELATED FINANCING ACTIVITIES:			
Acquisition of capital asset/construction work in progress	-	(297,069)	(40,591)
Proceeds from the sale of capital assets	-	-	-
NET CASH USED FOR CAPITAL AND CAPITAL- RELATED FINANCING ACTIVITIES	<u>-</u>	<u>(297,069)</u>	<u>(40,591)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Receipts of interest	3,545	3,505	267
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>3,545</u>	<u>3,505</u>	<u>267</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	104,380	148,040	7,650
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>5,524,276</u>	<u>3,608,917</u>	<u>279,884</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>5,628,656</u></u>	<u><u>3,756,956</u></u>	<u><u>287,533</u></u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES			
Operating Income/(loss)	179,337	66,444	16,026
Adjustments to reconcile operating income to net cash provided/(used) by operating activities:			
Depreciation expenses	-	426,519	31,087
(Increases)/decrease in accounts receivable	-	-	-
(Increases)/decrease in due from other governments	-	-	-
Increases/(decrease) in vouchers/accounts payable	(21,712)	(49,520)	861
Increases/(decrease) in accrued payroll/compensated absences payable	-	(1,839)	-
TOTAL ADJUSTMENTS	<u>(21,712)</u>	<u>375,160</u>	<u>31,948</u>
NET CASH PROVIDED/USED BY OPERATING ACTIVITIES	<u>\$ 157,625</u>	<u>\$ 441,604</u>	<u>\$ 47,974</u>
Non-cash investing, capital, and financing activities:			
Other contributions of capital assets	<u>\$ -</u>	<u>\$ 148,363</u>	<u>\$ -</u>

INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF CASH FLOWS
For Year Ended December 31, 2012

	Fleet and Equipment	Buildings and Furnishings	TOTAL
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received from users	\$ 2,166,617	\$ 616,463	\$ 5,724,306
Cash payments to claimants	-	-	(452,921)
Cash payments to suppliers for goods/services	(905,072)	(405,112)	(2,042,459)
Cash payments to employees	(37,673)	(89,424)	(763,460)
Cash payments to other governments for goods and services	-	-	(662,573)
Other operating receipts	708	21,219	212,036
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>1,224,580</u>	<u>143,146</u>	<u>2,014,929</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Transfers in	56,790	-	56,790
Transfers out	-	-	(56,790)
NET CASH PROVIDED BY NONCAPITAL FINANCING	<u>56,790</u>	<u>-</u>	<u>-</u>
CASH FLOWS FROM CAPITAL AND CAPITAL - RELATED FINANCING ACTIVITIES:			
Acquisition of capital asset/construction work in progress	(856,232)	(18,153)	(1,212,045)
Proceeds from the sale of capital assets	52,758	-	52,758
NET CASH USED FOR CAPITAL AND CAPITAL- RELATED FINANCING ACTIVITIES	<u>(803,474)</u>	<u>(18,153)</u>	<u>(1,159,287)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Receipts of interest	4,996	1,462	13,775
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>4,996</u>	<u>1,462</u>	<u>13,775</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	482,892	126,455	869,417
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>5,294,581</u>	<u>1,481,294</u>	<u>16,188,952</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>5,777,473</u></u>	<u><u>1,607,749</u></u>	<u><u>17,058,367</u></u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES			
Operating Income/(loss)	404,511	(770,292)	(103,974)
Adjustments to reconcile operating income to net cash provided/(used) by operating activities:			
Depreciation expenses	816,201	901,625	2,175,432
(Increases)/decrease in accounts receivable	-	40,571	40,571
(Increases)/decrease in due from other governments	-	49,060	49,060
Increases/(decrease) in vouchers/accounts payable	4,218	(77,818)	(143,971)
Increases/(decrease) in accrued payroll/compensated absences payable	(350)	-	(2,189)
TOTAL ADJUSTMENTS	<u>820,069</u>	<u>913,438</u>	<u>2,118,903</u>
NET CASH PROVIDED/USED BY OPERATING ACTIVITIES	<u>\$ 1,224,580</u>	<u>\$ 143,146</u>	<u>\$ 2,014,929</u>
Non-cash investing, capital, and financing activities:			
Other contributions of capital assets	<u>\$ 66,559</u>	<u>\$ -</u>	<u>\$ 214,922</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, 2012

	2012	2011
GOVERNMENTAL FUNDS CAPITAL ASSETS		
Land	\$ 303,565,575	\$302,168,217
Buildings	651,464	651,464
Improvements other than buildings	43,865,580	43,865,580
Machinery and equipment	184,000	184,000
Infrastructure	151,204,738	147,163,554
Construction in progress	22,743,528	21,158,058
	522,214,885	515,190,873
TOTAL GOVERNMENTAL FUNDS CAPITAL ASSETS		
 INVESTMENTS IN GOVERNMENTAL FUNDS CAPITAL ASSETS BY SOURCE:		
General Fund	125,244,871	125,244,871
Special Revenue Funds	252,375,395	252,375,395
Capital Project Funds	122,888,397	121,141,891
Donations	21,706,222	16,428,716
	522,214,885	515,190,873
TOTAL GOVERNMENTAL FUNDS CAPITAL ASSETS		
	\$ 522,214,885	\$ 515,190,873

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 position.

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

December 31, 2012

Function and Activity	Land	Buildings	Improvements Other than Buildings	Machinery and Equipment	Infrastructure	Construction in Progress	Total 2012	Total 2011
GENERAL GOVERNMENT								
Miscellaneous general government	\$ 18,013,262	\$ -	\$ 19,973	\$184,000	\$ 6,139,001	\$ 414,278	\$ 24,770,514	\$ 23,393,421
Total General Government:	18,013,262	-	19,973	184,000	6,139,001	414,278	24,770,514	23,393,421
CULTURE AND RECREATION								
Culture and Recreation	121,007,794	651,464	43,845,607	-	94,474,128	2,769,284	262,748,277	262,079,630
Total Culture and Recreation:	121,007,794	651,464	43,845,607	-	94,474,128	2,769,284	262,748,277	262,079,630
TRANSPORTATION								
Streets and Traffic	164,544,519	-	-	-	50,591,609	19,559,966	234,696,094	229,717,822
Total Transportation:	164,544,519	-	-	-	50,591,609	19,559,966	234,696,094	229,717,822
Total General Fixed Asset by Function:	<u>\$303,565,575</u>	<u>\$ 651,464</u>	<u>\$ 43,865,580</u>	<u>\$184,000</u>	<u>\$151,204,738</u>	<u>\$ 22,743,528</u>	<u>\$522,214,885</u>	<u>\$515,190,873</u>

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 position.

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

For the Year Ended December 31, 2012

	Governmental Funds Capital Assets 1/1/2012	Additions	Deductions	Governmental Funds Capital Assets 12/31/2012
GENERAL GOVERNMENT				
Miscellaneous general government	\$ 23,393,421	\$ 1,377,093	\$ -	\$ 24,770,514
TOTAL GENERAL GOVERNMENT	23,393,421	1,377,093	-	24,770,514
CULTURE AND RECREATION				
	262,079,630	668,647	-	262,748,277
TOTAL CULTURE AND RECREATION	262,079,630	668,647	-	262,748,277
TRANSPORTATION				
Streets and traffic	229,717,822	4,978,272	-	234,696,094
TOTAL TRANSPORTATION	229,717,822	4,978,272	-	234,696,094
 TOTAL GENERAL FIXED ASSETS	 \$ 515,190,873	 \$ 7,024,012	 \$ -	 \$ 522,214,885

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 position.

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.

NET POSITION BY COMPONENT
Last Seven Fiscal Years

	2006	2007	2008	2009	2010	2011	2012
Governmental activities							
Net investment in capital assets	\$ 93,835,163	\$ 439,127,122	\$ 456,600,030	\$ 442,704,401	465,671,345	470,074,905	470,597,776
Restricted	38,359,454	32,269,512	28,434,066	27,476,530	17,442,323	23,941,601	22,847,077
Unrestricted	15,051,966	23,651,674	24,773,913	44,282,822	44,613,406	38,602,445	45,027,323
Total governmental activities net position	<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>	<u>538,472,176</u>
Business-type activities							
Net investment in capital assets	43,697,633	45,264,105	50,494,590	50,578,649	50,563,097	50,052,887	50,280,880
Restricted	26,439	15,777	42,558	16,366	9,411	18,831	26,496
Unrestricted	7,467,417	6,550,179	5,071,617	5,115,275	5,015,367	5,398,786	5,968,302
Total business-type activities net position	<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>	<u>56,275,678</u>
Primary government							
Net investment in capital assets	137,532,796	484,391,227	507,094,620	493,283,050	516,234,442	520,127,792	520,878,656
Restricted	38,385,893	32,285,289	28,476,624	27,492,896	17,451,734	23,960,432	22,873,573
Unrestricted	22,519,383	30,201,853	29,845,530	49,398,097	49,628,773	44,001,231	50,995,625
Total primary government net assets	<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>	<u>\$594,747,853</u>

Source: City of Federal Way Finance

Note: All amounts are reported on the accrual basis.

CHANGES IN NET POSITION
Last Seven Fiscal Years

	2006	2007	2008	2009	2010	2011	2012
Expenses							
Governmental activities:							
General government	\$ 4,364,710	\$ 4,506,800	\$5,606,797	\$4,566,457	\$ 4,865,827	\$ 4,448,449	\$ 4,300,691
Security of persons and property	19,906,722	23,107,683	24,745,284	26,341,614	26,842,240	27,222,584	27,604,936
Transportation	5,628,100	9,986,067	7,891,298	9,448,397	9,781,800	13,539,598	9,946,776
Physical environment	313,388	336,588	370,718	450,914	451,470	424,466	415,935
Economic environment	3,162,089	3,319,955	3,382,572	3,560,620	3,175,005	2,782,435	2,645,478
Health and human svcs	622,761	684,984	705,976	776,854	767,108	690,643	754,727
Culture and recreation	5,172,663	6,506,137	6,955,442	8,089,242	8,073,804	8,105,578	8,081,401
Interest on long-term debt	1,420,691	1,122,358	901,161	811,124	685,214	614,571	602,572
Total governmental activities expenses	40,591,124	49,570,572	50,559,248	54,045,222	54,642,468	57,828,324	54,352,517
Business-type activities:							
Surface Water Mgmt	3,142,613	3,454,193	4,060,440	3,345,027	3,384,352	3,527,590	3,272,514
Dumas Bay Center	925,825	980,588	1,045,250	984,103	849,176	890,738	873,144
Total business-type activities expenses	4,068,438	4,434,781	5,105,690	4,329,130	4,233,528	4,418,328	4,145,658
Total primary government expenses:	44,659,562	54,005,353	55,664,938	58,374,352	58,875,996	62,246,652	58,498,175
Program Revenues							
Governmental activities:							
Charges for services							
General Government	1,052,641	3,510,339	\$2,313,939	\$873,258	975,515	816,140	924,966
Security of Persons & Property	4,800,920	2,110,164	2,309,406	5,037,388	5,381,407	4,985,320	5,937,100
Transportation	1,357,333	3,119,637	513,340	1,806,846	1,961,083	2,484,058	2,139,292
Physical Environment	75,580	-	262,847	86,230	90,512	77,875	89,457
Economic Environment	762,603	1,009,707	1,962,624	680,908	636,534	510,483	568,973
Health	150,192	-	-	148,579	153,792	126,710	162,322
Culture & Recreation	1,247,495	531,041	2,561,685	1,546,931	1,618,659	1,487,099	1,738,098
Operating grants and contributions	1,512,394	22,858	1,538,476	2,172,168	9,718,920	4,597,981	5,367,163
Capital grants and contributions	5,973,071	11,457,030	8,933,154	8,452,149	9,044,477	9,716,551	5,225,265
Total governmental activities program revenues	16,932,229	21,760,776	20,395,471	20,804,457	29,580,898	24,802,216	22,152,636
Business-type activities:							
Charges for services	4,130,179	3,667,168	4,473,453	4,183,012	4,246,235	4,020,144	4,222,726
Operating grants and contributions	1,113,010	632,185	-	-	-	265,660	576,182
Capital grants and contributions	-	222,474	-	-	-	-	-
Total business-type activities program revenues	5,243,189	4,521,827	4,473,453	4,183,012	4,246,235	4,285,804	4,798,908
	22,175,418	26,282,603	24,868,924	24,987,469	33,827,133	29,088,020	26,951,544
Net (Expense)/Revenue							
Governmental activities	(23,658,895)	(27,809,796)	(30,163,777)	(33,240,765)	(25,061,570)	(33,026,108)	(32,199,881)
Business-type activities	1,174,751	87,046	(632,237)	(146,118)	12,707	(132,524)	653,250
General Revenues and Other Changes in Net Position							
Governmental activities:							
Taxes							
Sales tax	12,409,719	13,048,624	12,144,276	10,583,298	10,708,951	10,858,381	10,534,147
Local Criminal Justice Sales Tax	1,953,822	2,145,383	2,051,524	1,743,893	1,701,120	1,795,971	1,864,991
Utility tax	9,043,449	12,796,461	13,469,136	13,549,472	12,890,310	13,068,510	13,083,179
Property tax	8,892,558	9,059,734	9,397,456	9,653,537	9,609,740	9,867,614	10,052,109
Real estate excise tax	5,499,911	4,898,537	2,590,310	1,428,985	1,403,361	1,560,395	1,507,313
Gambling Tax	1,363,468	1,489,952	1,259,783	1,127,203	493,486	511,005	114,443
Hotel/Motel Tax	175,219	191,691	188,833	154,148	149,058	185,289	193,344
Leasehold tax	4,592	7,254	5,712	4,999	5,757	6,259	5,820
Other	3,221,392	6,971,413	6,502,869	2,020,751	1,210,341	1,061,026	838,259
Transfers	(107,581)	(185,495)	123,518	(200,907)	152,768	(113,000)	(140,500)
Total governmental activities	42,456,549	50,423,554	47,733,417	40,065,379	38,324,892	38,801,450	38,053,106
Business-type activities:							
Other	388,729	366,031	3,447,458	46,736	17,646	12,405	11,424
Transfers	107,581	185,495	(123,518)	200,907	(152,768)	113,000	140,500
Total business-type activities	496,310	551,526	3,323,940	247,643	(135,122)	125,405	151,924
Total primary government	\$ 42,952,859	\$ 50,975,080	\$ 51,057,357	\$ 40,313,022	\$ 38,189,770	\$ 38,926,855	\$ 38,205,030
Change in Net Position							
Governmental activities	\$ 18,797,654	\$ 22,613,758	\$ 17,569,640	\$ 6,824,613	\$ 13,263,321	\$ 5,775,342	\$ 5,853,224
Business-type activities	1,671,061	638,572	2,691,703	101,525	(122,415)	(7,119)	805,174
Prior Period Adjustment	-	-	(1,722,939)	(2,168,769)	-	-	-
Total primary government	\$ 20,468,715	\$ 23,252,330	\$ 18,538,404	\$ 4,757,370	\$ 13,140,907	\$ 5,768,223	\$ 6,658,398

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

	2006	2007	2008	2009	2010	2011	2012
Program Revenues							
Charges for Services	\$ 4,130,179	\$ 14,580,241	\$ 14,397,294	\$ 14,363,151	15,063,736	14,507,828	15,782,934
Operating Grants and Contributions	2,625,404	246,305	1,538,476	2,172,168	9,718,920	4,863,641	5,943,345
Capital Grants and Contributions	5,973,071	11,457,030	8,933,154	8,452,149	9,044,477	9,716,551	5,225,265
General revenues							
Sales tax	12,409,719	13,048,624	12,144,276	10,583,298	10,708,951	10,858,381	10,534,147
Local Criminal Justice Sales Tax	1,953,822	2,145,383	2,051,524	1,743,893	1,701,120	1,795,971	1,864,991
Utility tax	9,043,449	12,796,461	13,469,136	13,549,472	12,890,310	13,068,510	13,083,179
Property tax	8,892,558	9,059,734	9,397,456	9,653,537	9,609,740	9,867,614	10,052,109
Real estate excise tax	5,499,911	4,898,537	2,590,310	1,428,985	1,403,361	1,560,395	1,507,313
Gambling Tax	1,363,468	1,489,952	1,259,783	1,127,203	493,486	511,005	114,443
Hotel/Motel Tax	175,219	191,691	188,833	154,148	149,058	185,289	193,344
Leasehold tax	4,592	7,254	5,712	4,999	5,757	6,259	5,820
Other revenue	1,299,548	4,194,183	875,389	1,421,791	1,063,825	960,012	702,833
Unrestricted Grants & Contribution	-	-	7,448,783	284,350	-	-	-
Investment Earnings	3,194,690	3,223,005	1,678,292	385,976	179,373	113,419	146,850
Disposition of capital assets	(884,117)	(79,744)	(52,137)	(24,630)	(15,211)	-	-
Total Revenues	55,681,513	77,258,656	75,926,281	65,300,490	72,016,903	68,014,875	65,156,573
Expenses/Expenditures							
General Government	4,364,710	4,506,800	5,606,797	4,566,457	4,865,827	4,448,449	4,300,691
Security of Persons & Property	19,906,722	23,107,683	24,745,284	26,341,614	26,842,240	27,222,584	27,604,936
Transportation	5,628,100	9,986,067	7,891,298	9,448,397	9,781,800	13,539,598	9,946,776
Physical Environment	313,388	336,588	370,718	450,914	451,470	424,466	415,935
Economic Environment	3,162,089	3,319,955	3,382,572	3,560,620	3,175,005	2,782,435	2,645,478
Health	622,761	684,984	705,976	776,954	767,108	690,643	754,727
Culture & Recreation	5,172,663	6,506,137	6,955,442	8,089,242	8,073,804	8,105,578	8,081,401
Interest on long-term debt	1,420,691	1,122,358	901,161	811,124	685,214	614,571	602,572
Surface Water Management	3,142,613	3,455,166	4,060,440	3,345,027	3,384,352	3,527,590	3,272,514
Dumas Bay Centre	925,825	980,588	1,045,250	984,103	849,176	890,738	873,144
Total Expenses/Expenditures	\$ 44,659,562	\$ 54,006,326	\$ 55,664,938	\$ 58,374,452	\$ 58,875,996	\$ 62,246,652	\$ 58,498,175

Source: City of Federal Way Finance

FUND BALANCES OF GOVERNMENTAL FUNDS
Last Seven Fiscal Years

	2006	2007	2008	2009	2010	2011	2012
General fund							
Reserved	278,778	125,184	418,207	106,728	-	-	-
Unreserved	6,492,057	7,783,868	5,511,440	8,138,468	-	-	-
Nonspendable	-	-	-	-	81,146	104,012	69,398
Restricted	-	-	-	-	168,398	145,524	60,585
Committed	-	-	-	-	-	21,893	21,893
Unassigned	-	-	-	-	8,188,575	12,372,719	14,783,219
Total general fund	6,770,835	7,909,052	5,929,647	8,245,196	8,438,119	12,644,148	14,935,095
All Other Governmental Funds							
Reserved	194,463	2,323,184	1,763,667	4,770,399	-	-	-
Unreserved, reported in:							
Special revenue funds	2,772,153	4,392,623	7,505,799	4,311,238	-	-	-
Capital projects funds	31,863,330	30,054,670	26,252,192	22,934,356	-	-	-
Debt service funds	6,217,346	-	-	-	-	-	-
Restricted	-	-	-	-	17,776,967	19,325,489	18,079,168
Committed	-	-	-	-	18,611,612	11,642,248	15,813,105
Assigned	-	-	-	-	100,000	-	-
Total all other governmental funds	\$ 41,047,292	\$ 36,770,477	\$ 35,521,658	\$ 32,015,993	\$ 36,488,580	\$ 30,967,736	\$ 33,892,273

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

	2006	2007	2008	2009	2010	2011	2012
Revenues							
Taxes	\$39,334,751	\$43,584,824	\$41,071,781	\$38,192,852	\$37,122,069	\$ 37,831,045	\$ 37,450,059
Licenses, fees and permits	2,089,844	2,939,328	2,195,068	2,163,984	2,547,655	2,209,873	2,501,368
Intergovernmental	8,047,243	15,494,887	10,520,570	11,127,718	18,648,749	11,713,248	7,631,014
Charges for services	6,355,262	6,327,552	6,246,207	5,573,647	5,486,632	6,131,287	5,686,962
Development Fees	196,060	-	-	-	-	-	-
Fines and Forfeitures	805,598	1,005,293	1,433,628	2,200,092	2,783,214	2,146,524	3,371,878
Investment earnings	2,447,996	2,463,670	1,274,955	271,600	139,698	89,338	122,483
Other revenues	717,922	630,966	875,389	1,599,207	899,092	960,012	702,830
Total revenues	59,994,676	72,446,520	63,617,598	61,129,100	67,627,109	61,081,327	57,466,594
Expenditures							
General government	3,944,288	4,364,750	5,197,032	4,518,821	4,857,177	4,234,327	4,402,129
Security of persons and property	19,909,858	24,183,913	25,470,722	27,051,814	26,892,207	28,332,237	26,562,270
Transportation	5,373,983	6,631,030	6,634,548	6,165,540	5,700,274	7,427,408	6,039,183
Physical Environment	313,388	336,588	370,718	448,873	450,971	427,315	409,042
Economic Environment	3,055,426	3,326,986	3,344,987	3,504,767	3,161,820	2,782,537	2,645,215
Health	613,800	677,536	700,876	772,151	765,963	690,824	754,311
Culture and Recreation	4,108,813	5,300,455	5,871,288	5,845,676	5,857,621	5,821,160	5,877,370
Debt Service							
Principal	2,197,357	9,953,505	440,900	4,558,750	494,250	457,520	480,760
Interest/fiscal charges/admin fees	1,420,691	1,122,358	901,161	811,124	685,214	614,571	602,572
Capital Outlay	24,412,303	19,162,067	18,037,109	8,443,523	14,249,501	11,560,205	4,337,758
Total expenditures	65,349,907	75,059,188	66,969,341	62,121,039	63,114,998	62,348,104	52,110,610
Excess of revenues over (under) expenditures	(5,355,231)	(2,612,668)	(3,351,743)	(991,939)	4,512,111	(1,266,777)	5,355,984
Other Financing Sources (Uses)							
GO bond proceeds	4,100,000	-	-	-	-	-	-
Sale of capital assets	20,000	(23,786)	-	-	-	9,162	-
Transfers in	13,231,785	22,688,136	16,232,916	25,619,678	22,473,128	21,453,223	16,228,281
Transfers out	(13,517,681)	(23,190,280)	(16,109,398)	(25,817,857)	(22,319,725)	(21,510,423)	(16,368,781)
Total other financing sources (uses)	3,834,104	(525,930)	123,518	(198,179)	153,403	(48,038)	(140,500)
Net change in fund balances	\$(1,521,127)	\$(3,138,598)	\$(3,228,225)	\$(1,190,118)	\$ 4,665,514	\$ (1,314,815)	\$ 5,215,484
Debt service as a percentage of noncapital expenditures	9.7%	24.7%	2.8%	11.1%	2.4%	2.1%	2.5%

Source: City of Federal Way Finance

SALES TAX REVENUE BY CATEGORY
Last Ten Fiscal Years

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Retail Trade	\$ 6,747,812	\$ 5,735,317	\$ 5,889,728	\$ 6,317,881	\$ 6,856,216	\$ 6,551,426	\$ 5,767,340	\$ 5,716,833	\$ 5,566,978	\$ 5,739,670
Services	1,392,255	2,103,295	2,243,364	2,319,304	2,538,494	2,504,690	2,400,997	2,474,589	2,396,007	2,328,726
Construction/Contract	1,019,930	1,035,464	1,490,740	2,114,732	1,873,526	1,266,029	883,432	909,184	1,202,802	857,781
Wholesaling	505,109	538,663	516,208	499,626	544,846	605,736	390,660	421,989	431,751	426,322
Transportation/Utility *	443,279	15,725	13,446	17,014	7,914	22,867	4,147	3,257	3,453	8,007
Information *	-	598,078	594,013	531,407	502,959	567,599	521,336	590,649	514,634	521,833
Manufacturing	107,451	109,524	138,158	179,874	267,464	221,683	210,996	144,076	145,420	156,478
Government	42,815	49,877	55,702	40,888	68,356	55,633	107,750	171,918	258,026	120,701
Finance/Insurance/Real Estate	206,984	346,073	340,448	355,940	360,101	331,957	274,781	237,328	313,904	336,117
Other Services	81,898	14,202	23,730	33,053	28,762	16,656	21,866	39,129	25,413	38,512
Total	\$ 10,547,533	\$ 10,546,218	\$ 11,305,537	\$ 12,409,719	\$ 13,048,638	\$ 12,144,276	\$ 10,583,305	\$ 10,708,952	\$ 10,858,388	\$ 10,534,147

City direct sale tax rate 0.85%

Information category combined with Transportation/Utility in 2003.

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)
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	-10.4%
2012	6,832,615,312	213,389,519	96,827,145	7,142,831,976	1.30	-13.6%

* 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 include all final tax adjustments, omits and senior citizen exempted property. The total assessed value was reduced by senior citizen exemptions (no tax amounts) of \$55,270,036 and prior year omits of \$259,000 yielding a regular levy value of \$7,087,561,940. The 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	King County Flood Zone	Port of Seattle	County Ferry District	Fire District #39	Emergency Medical Library Services		
	Way	District #210	County	State	Flood Zone	Seattle	Ferry District	#39	Library Services		
TAX RATES PER \$1,000 OF ASSESSED VALUATION											
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	1.21	2.13	0.10	0.22	0.055	1.50	0.45	0.30	11.16
2009	0.97	4.20	1.10	1.96	0.09	0.20	0.052	1.50	0.42	0.27	10.76
2010	1.13	5.11	1.28	2.22	0.11	0.22	0.003	1.50	0.49	0.30	12.36
2011	1.20	5.36	1.34	2.28	0.11	0.22	0.004	1.39	0.57	0.30	12.77
2012	1.30	5.77	1.42	2.42	0.12	0.23	0.004	1.50	0.57	0.30	13.63

DETAIL OF TAX RATES FOR 2012

Basic Rate	1.30	-	1.34	2.42	0.12	0.23	0.004	1.50	0.50	-	7.42
Voted Rate	-	5.77	0.07	-	-	-	-	-	0.07	0.30	6.21

TAX LEVIES

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	409,763,053	723,908,902	33,945,830	75,908,664	18,670,739	22,288,360	91,371,026	101,861,635	1,539,748,788
2009	9,551,027	58,588,636	422,757,529	756,272,108	35,151,944	75,911,308	19,335,328	23,715,724	95,398,383	105,611,047	1,602,293,034
2010	9,690,241	61,404,973	437,163,660	756,411,197	35,783,324	73,504,599	1,185,576	20,409,747	97,015,693	102,103,088	1,594,672,098
2011	9,827,398	61,622,347	439,635,095	749,341,420	36,076,405	73,512,887	1,184,924	18,234,001	115,495,462	98,604,471	1,603,534,410
2012	9,967,650	61,493,504	449,642,988	769,672,818	36,904,878	73,014,552	1,182,466	18,291,481	112,332,714	95,287,781	1,627,790,832

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. King County certified tax levy at beginning of year.

PRINCIPAL TAXPAYERS
Current Year and Ten Years Ago

Taxpayer	Type of Business	2012			2003		
		Assessed Valuation	Rank	% of Total Assessed Valuation	Assessed Valuation	Rank	% of Total Assessed Valuation (A)
Weyerhaeuser	Lumber Products	\$ 113,070,028	1	1.60%	\$ 157,395,612	1	2.51%
Puget Sound Energy-Elec/Gas	Electric/Gas	58,272,997	2	0.82%	51,359,264	2	0.82%
Steadfast Commons LLC	Real Estate Management	53,877,400	3	0.76%	38,434,837	4	0.61%
Harsch Investment Properties	Real Estate Management	50,936,000	4	0.72%	33,723,200	5	0.54%
LBA Realty	Real Estate Management	32,470,300	5	0.46%	-	-	-
Qwest Corporation Inc.	Communications/Telephone	27,311,903	6	0.39%	43,115,769	3	0.69%
Forest Cove LLC	Real Estate Management	25,876,000	7	0.37%	-	-	-
KNL Vision WA LLC (formerly BRE Properties)	Real Estate Management	24,285,000	8	0.34%	17,454,000	10	0.28%
Fred Meyer	Retailer	21,087,400	9	0.30%	20,608,672	7	0.33%
Costco	Retailer / Wholesaler	18,788,019	10	0.27%	16,422,949	11	0.26%
Virginia Mason	Medical Services	17,306,840	11	0.24%	16,403,198	12	0.26%
IA Orchard Hotels Federal Way (formerly Apple Hospitality Five Inc.)	Hospitality	15,029,200	12	0.21%	-	-	-
Campus Business Parks LLC	Real Estate Invest/Holding	12,027,400	13	0.17%	11,735,600	13	0.19%
ANS LLC	Retailer	11,899,300	14	0.17%	-	-	-
		<u>\$ 482,237,787</u>		<u>6.80%</u>	<u>\$ 406,653,101</u>		<u>6.49%</u>

Source: King County Assessor's Office and King County Department of Finance.
(A) 2003 assessed valuation for the City of Federal Way was \$6,262,874,389

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		
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%	186,036	9,692,563	99.4%	62,459	0.6%
2012	9,919,406	9,739,696	98.2%	(0)	9,739,696	98.2%	179,710	1.8%

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

Note: These figures include tax adjustments such as omits, refunds, appeals, and senior citizen exempted property.

Taxes levied for Fiscal Year includes adjustments versus taxes levied at beginning of year.

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				
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
2012	27,616,950	-	845,317		28,462,267	0.093%	318

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. 2008-2011 info for Federal Way is based on US Census Bureau, 2005-2009 American Community Survey five-year Estimates. 2012 info for Federal Way is based on 2007-2011 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
2003	83,500	6,292,343,626	27,616,950	2,599,653	25,017,297	0.0040	299.61
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	29,893,985	3,866,184	26,027,801	0.0034	291.24
2012	89,460	7,142,831,976	28,462,267	4,182,345	24,279,922	0.0034	271.41

(A) Sources: U.S. Census Bureau; State of Washington Office of Program Planning and Fiscal Management.

(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 \$7,142,831,976 has been reduced by senior citizen exemptions of \$73,498,579 and prior year omits of \$259,009 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, 2012

<u>Jurisdiction</u>	(A) Gross General Obligation Debt Outstanding	(B) Percentage Applicable to Federal Way	Amount Applicable to Federal Way
King County	\$ 894,303,000	3.34%	\$ 29,885,237
Port of Seattle	312,005,000	3.34%	10,426,381
Federal Way School District #210	137,405,000	70.88%	97,395,446
Library	188,445,000	3.65%	6,880,989
Total Overlapping Debt	1,532,158,000		144,588,053
 CITY OF FEDERAL WAY	 27,616,950 (C)	 100.00%	 27,616,950
Total Direct and Overlapping Debt	<u>\$ 1,559,774,950</u>		<u>\$ 172,205,003</u>

(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, 2012**

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: (2012 AV=\$7,142,831,976) (A)					
1.50% AV @ 100%	\$ 107,142,480	\$ (107,142,480)	\$ -	\$ -	\$ -
2.50% AV @ 100%	-	178,570,799	178,570,799	178,570,799	535,712,398
Add: Cash on hand for debt redemption (B)	2,004,488	-	-	-	2,004,488
Less: Bonds and COPs outstanding	(27,616,950)	-	-	-	(27,616,950)
Remaining Debt Capacity	\$ 81,530,018	\$ 71,428,320	\$ 178,570,799	\$ 178,570,799	\$ 510,099,936
Total Remaining "General" Capacity	<u>\$152,958,337</u>				

- (A) This figure represents the City's final total taxable assessed valuation (AV) for 2012 which was used to determine the 2013 property tax levy.
- (B) Reflects ending fund balance in the Debt Service Fund and Utility Tax Fund as of December 31, 2012.
- (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
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%
2012	535,712,398	(25,612,462)	510,099,936	4.78%

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
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%
2012	480,760	1,114,827	1,595,587	47,879,445	3.3%

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)
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	178,306,642,000	26,668	35.2	13.0	21,608	8.9%
2012	89,460	N/A	26,514	34.9	13.0	20,665	8.1%

- (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.
- (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. 2008-2011 info for Federal Way is based on 2005-2010 American Community Survey five-year Estimates. 2012 info for Federal Way is based on 2007-2011 American Community Survey five-year Estimates.
- (D) Personal income information is for Seattle-Tacoma-Bellevue area provided by the Bureau of Economic Analysis, information for 2012 not available. 2012 data for Personal Income to be published fall of 2013.

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	2012			2003		
		Number of Employees	Rank	% of Total City Employment	Number of Employees	Rank	% of Total City Employment
Federal Way Public Schools	Educational Services	2,584	1	7.89%	3,025	2	10.22%
Xerox Commerical Services	Business Services	1,210	2	3.70%	-	-	-
Weyerhaeuser Company	Lumber Products	1,158	3	3.54%	3,283	1	11.09%
St Francis Hospital	Medical Services	875	4	2.67%	744	3	2.51%
World Vision Inc	Christian Relief Agency-Nonprofit	852	5	2.60%	663	5	2.24%
Us Postal Service - Bulk Mail	Postal Service	616	6	1.88%	662	6	2.24%
City Of Federal Way	Government Services	476	7	1.45%	440	7	1.49%
Wal-Mart Supercenter #3794	Retail	386	8	1.18%	-	-	0.00%
Virginia Mason Federal Way	Medical Services	235	9	0.72%	235	12	0.79%
Telecom Labs Inc	Communications	225	10	0.69%	-	-	0.00%
Fred Meyer	Retail	220	11	0.67%	214	15	0.72%
Costco Wholesale Corporation	Wholesale	214	12	0.65%	255	8	0.86%
Wal-Mart Store #2571	Retail	183	13	0.56%	225	13	0.76%
Target Store #1947	Retail	178	14	0.54%	130	29	0.44%
Garden Terrace Alzheimer's Center	Health Services	163	15	0.50%	50	38	0.17%

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)
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	12,724	301	19,455	47	847
2012	160	27,989	346	29,115	92	974

Sources & Notes:

- (A) Federal Way Community Economic Development Department. Commercial construction includes alterations. Other building-related permits (plumbing, mechanical, fire alarm, etc.) numbering 2,960 and valued at \$5,405,873 have been excluded.

CAPITAL ASSETS BY FUNCTION
Last Ten Fiscal Years

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Transportation											
Street (Center Line Miles)	224.48	224.48	224.48	230.84	233.84	233.84	234.72	234.72	242.90	248.23	248.23
Signals WSDOT-owned and maintained	4	4	4	4	5	5	5	5	5	5	6
Signals City-owned & County-maintained	67	70	71	71	74	74	76	76	76	76	77
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	1,618
Street lights City-owned and PSE-maintained	-	644	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	1,975
Culture & Recreation											
Developed Parks - Acreage	493.5	500.25	500.25	522.9	522.9	524.49	524.49	524.49	524.49	524.49	579.86
Developed Parks - # of Parks	28	31	32	32	32	32	32	32	32	32	29
Undeveloped Parks - Acreage	352	356.24	356.24	543.5	543.5	543.46	551.12	551.12	551.12	551.12	539.43
Undeveloped Parks - # of Parks	20	21	21	21	21	21	22	22	22	22	22
Tennis Courts City-Owned	9	9	9	11	11	11	11	11	11	11	9
Tennis Courts - Public	10	10	16	22	22	22	22	22	22	22	25
Swimming Pools City-Owned	0	1	1	1	1	1	1	1	1	1	2
Swimming Pools County-Owned	2	1	1	1	1	1	1	1	1	1	3
Trails - Miles	4	4	4	6	6	6	6	6	6	6	9
Trails - # of Trails	2	2	2	2	2	2	3	3	3	3	6
Community Centers/Recreation Facilities	2	2	2	2	2	2	1	1	1	1	1

Source: City of Federal Way Public Works and Parks Department

OPERATING INDICATORS BY FUNCTION
Last Ten Fiscal Years

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
SECURITY OF PERSONS & PROPERTY										
Police Information										
Offenses:										
Forcible Rape (including attempts)	50	50	55	64	48	30	51	50	38	48
Robbery	125	121	153	146	129	170	198	152	119	107
Criminal Homicide	2	-	7	1	3	10	5	5	4	3
Aggravated Assault	120	109	101	120	107	115	115	118	99	150
Vehicle Theft	1,204	1,118	1,573	1,199	939	816	561	741	694	800
Burglary (commercial & residential)	672	759	800	753	739	800	741	828	752	931
Larceny	3,145	3,257	3,786	3,230	3,159	2,933	3,231	3,141	3,067	3,409
Arson	14	23	25	26	18	13	13	11	11	9
Citations:										
Traffic	18,411	13,219	11,402	11,931	14,043	19,339	20,678	18,094	17,226	13,023
Red Light Photo	-	-	-	-	-	3,813	13,002	25,691	15,340	13,455
ECONOMIC ENVIRONMENT										
Building Related Permits & Values										
Building Permits	531	624	880	788	791	605	483	545	482	598
Estimated Value (In Millions \$)	\$64.5	147.2	\$236.5	\$151.1	\$126.5	\$89.4	\$79.2	\$53.4	\$33.0	\$58.1
Other Building Related Permits	1779	1958	2705	2550	2690	2370	2209	2423	2385	2960
Estimated Value (In Millions \$)	\$ 2.4	\$ 2.5	\$ 3.9	\$ 4.2	\$ 5.5	\$ 7.0	\$ 5.6	\$ 5.9	\$ 6.2	\$ 5.4

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	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Mayor's Office	6.00	6.00	6.00	6.00	10.00	9.75	7.63	7.63	5.00	3.00
Administration	5.00	5.00	5.00	5.00	5.50	5.25	3.13	3.13	4.00	3.00
Economic Development	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	-
City Council	3.50	4.50	4.50	3.85						
Municipal Court	13.55	12.55	12.55	12.55	14.00	14.00	13.00	13.00	13.00	13.00
Human Resources	6.50	6.50	5.00	5.00	5.00	5.25	5.25	5.25	4.50	4.50
City Clerk	2.00	2.00	1.50	1.50	1.50	1.75	1.75	1.75	1.75	1.75
Human Resources	4.50	4.50	3.50	3.50	3.50	3.50	3.50	3.50	2.75	2.75
Finance	9.50	9.50	8.50	8.50	9.50	8.00	7.60	7.60	7.00	7.00
Administration	1.50	1.50	1.50	1.50	1.50	-	-	-	-	-
Finance	8.00	8.00	7.00	7.00	8.00	8.00	7.60	7.60	7.00	7.00
Information System	9.00	9.00	8.50	8.50	10.60	10.60	10.00	9.60	7.00	7.00
Law	10.38	10.60	10.60	10.60	13.00	13.00	12.00	12.00	11.00	11.00
Civil Legal Services	5.80	5.80	5.80	5.80	5.80	5.80	4.80	4.80	4.80	4.80
Criminal Prosecution Services	4.58	4.80	4.80	4.80	7.20	7.20	7.20	7.20	6.20	6.20
Community & Econ Development	29.60	29.60	28.70	28.70	30.49	32.00	30.00	28.90	19.00	21.65
Administration	4.50	4.50	4.50	4.50	4.50	4.50	5.00	5.00	3.50	3.50
Planning	8.80	8.80	8.80	8.80	8.75	8.75	8.00	7.00	6.00	6.00
Building	12.30	12.30	12.30	12.30	13.25	14.25	13.00	13.00	9.00	9.00
Human Services	3.00	3.00	2.50	2.50	3.00	3.50	3.00	3.00	-	2.65
Neighborhood Development	1.00	1.00	0.70	0.70	1.00	1.00	1.00	0.90	-	-
Economic Development	-	-	-	-	-	-	-	-	0.50	0.50
Police	155.00	155.00	152.00	155.00	169.00	169.00	164.00	161.00	135.00	132.00
Administration	2.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
Support Services	55.00	54.00	53.00	55.00	61.00	61.00	61.00	58.00	51.00	52.00
Field Operations	98.00	98.00	96.00	97.00	105.00	105.00	100.00	100.00	81.00	77.00
Parks, Rec. & Cultural Svcs.	30.40	30.40	30.20	31.20	44.25	44.25	39.75	39.75	36.45	36.45
Administration	1.80	1.80	1.80	1.80	1.80	2.80	1.35	1.35	1.35	1.35
Planning	1.00	1.00	1.00	1.00	1.00	-	-	-	-	-
Kenneth Jones Pool	3.00	3.00	3.00	3.00	-	-	-	-	-	-
General Recreation	6.60	6.60	6.60	6.60	7.10	7.10	4.80	4.80	5.50	5.50
Community Center	-	-	-	-	12.35	12.35	13.35	13.35	13.35	13.35
Dumas Bay Centre	2.00	2.00	2.00	3.00	3.00	2.75	2.75	2.75	2.75	2.75
Knutzen Family Theatre	1.50	1.50	1.50	1.50	1.50	1.75	-	-	-	-
Parks Maintenance	14.00	14.00	13.80	13.80	17.00	17.00	17.00	17.00	13.00	13.00
Building	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Public Works	41.50	41.60	41.60	42.60	44.00	44.00	42.95	41.95	38.95	38.95
Administration	2.10	2.10	2.10	1.90	1.85	1.85	2.35	2.35	2.25	2.20
Development Services	6.45	5.80	5.80	6.50	6.45	6.45	4.45	4.45	4.20	4.20
Traffic Services	5.10	5.10	5.10	5.10	6.10	6.10	6.10	5.10	2.35	2.35
Street Services	11.00	11.70	11.70	11.00	11.50	11.00	10.50	10.50	10.60	10.60
Emergency Management	-	-	-	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Solid Waste & Recycling	1.60	1.60	1.60	1.70	1.70	1.70	1.70	1.70	1.70	1.70
Surface Water Management	15.25	15.30	15.30	15.40	15.40	15.40	16.35	16.35	16.35	16.40
Fleet & Equipment	-	-	-	-	-	0.50	0.50	0.50	0.50	0.50
Total	314.93	314.25	307.15	312.15	353.34	353.35	335.68	331.18	281.40	278.40

Source: City of Federal Way Finance Division

SALARIES AND SURETY BONDS OF PRINCIPAL OFFICIALS
DECEMBER 31, 2012

POSITION	LEGISLATIVE BODY	
	EMPLOYEE	ANNUAL SALARY
MAYOR	SKIP PRIEST	\$112,800
DEPUTY MAYOR	JIM FERRELL	\$13,800
COUNCIL MEMBERS	LINDA KOCHMAR	\$13,800
	SUSAN HONDA	\$13,800
	JEANNE BURBIDGE	\$13,800
	BOB CELSKI	\$13,800
	ROGER FREEMAN	\$13,800
	DINI DUCLOS	\$13,800

POSITION	ADMINISTRATIVE STAFF	
	EMPLOYEE	ANNUAL SALARY
FINANCE DIRECTOR	THO KRAUS	\$121,848
CITY ATTORNEY	PAT RICHARDSON	\$132,684
CITY CLERK	CAROL MCNEILLY	\$82,140
COMMUNITY & ECONOMIC DEVELOPMENT DIRECTOR	PATRICK DOHERTY	\$115,680
PARKS AND PUBLIC WORKS DIRECTOR	CARY M. ROE	\$137,436
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, 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%

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.

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Fire and Other Responses	3,117	2,896	3,210	865	639	1,083	1,147	1,041	934	1,363
Emergency Medical	8,042	8,263	8,636	11,164	11,350	12,058	11,077	11,460	11,914	12,571

PUBLIC EDUCATION

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
23 Elementary Schools	9,854	9,916	9,806	9,733	9,612	9,594	9,594	9,560	9,673	9,229
9 Middle Schools (incl. Public Academy)	5,458	5,476	5,271	5,183	5,139	5,234	5,203	5,235	5,205	5,041
5 High Schools	6,625	6,650	7,004	6,954	6,720	6,531	6,637	6,547	6,409	6,018
1 Internet Academy (K-12)	328	353	302	314	304	263	266	288	321	377
	22,265	22,395	22,383	22,184	21,775	21,622	21,700	21,630	21,608	20,665

2,584 Staff members

TAXABLE SALES (in millions)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Retail Sales	\$1,237	\$1,239	\$1,331	\$1,471	\$1,540	\$1,458	\$1,257	\$1,261	\$1,277	\$1,239
Real Estate Sales	\$570	\$616	\$939	\$988	\$963	\$536	\$208	\$238	\$315	\$303